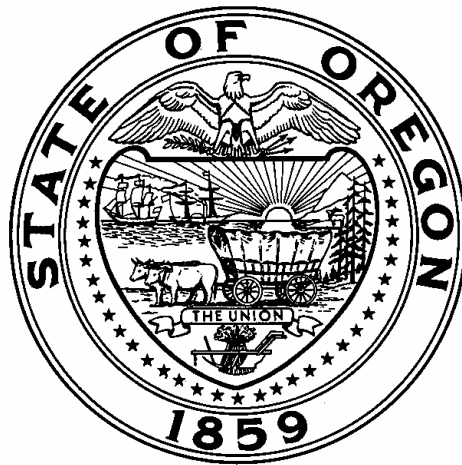


# Oregon

## **Comprehensive Annual Financial Report**



**For the Fiscal Year Ended June 30, 2003**



# **Oregon**

## **Comprehensive Annual Financial Report**

### **For the Fiscal Year Ended June 30, 2003**



**Theodore R. Kulongoski**  
**Governor**

**Gary K. Weeks, Director**  
**Department of Administrative Services**

**John J. Radford, Administrator**  
**State Controller's Division**

**Report Prepared by:**

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# Comprehensive Annual Financial Report For the Year Ended June 30, 2003

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# Introductory Section

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# Oregon

Theodore R. Kulongoski, Governor

## Department of Administrative Services

State Controller's Division  
155 Cottage Street NE, U50  
Salem, OR 97301-3969  
(503) 378-3156  
FAX (503) 378-3518

December 12, 2003

The Honorable Theodore R. Kulongoski  
Governor of the State of Oregon

Citizens of Oregon

We are pleased to provide you with the Comprehensive Annual Financial Report of the State of Oregon for the year ended June 30, 2003, in accordance with Oregon Revised Statute 291.040. The financial statements included in this report are presented in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA).

This report consists of management's representations concerning the finances of the State of Oregon. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the State has established a comprehensive internal control framework. The framework is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We believe the information presented is accurate in all material respects.

The Secretary of State Audits Division, the constitutional auditor of public accounts in Oregon, audited the State's financial statements for the year ending June 30, 2003. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. The auditors tested evidence supporting the amounts and disclosures in the financial statements, assessed the accounting principles used and the significant estimates made, and evaluated the overall presentation of the financial statements. Based on the audit, the auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the financial statements for fiscal year 2003 are fairly presented in accordance with GAAP. Their audit report is the first component in the financial section of this report.

The audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the needs of federal agencies that provide aid to the State. The standards governing single audit engagements require the auditor to report on the State's internal controls and compliance with legal requirements, particularly as they relate to federal awards. These reports, also prepared by the Audits Division, will be available in a separately issued report on or about March 31, 2004.

Generally accepted accounting principles require us to provide a clear and objective narrative analysis of the State's financial activities to accompany the basic financial statements. This narrative, entitled Management's Discussion and Analysis (MD&A), follows the independent auditor's report in the financial section of this report. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

### ***Profile of the Government***

The State provides services to Oregon's citizens through a wide range of programs including education, human resources, public safety, economic and community development, natural resources, transportation, consumer and business services, administrative support, legislative, and judicial programs. Oregon's primary government as reported in the accompanying financial statements consists of just over 100 state agencies. In addition to the primary government, we report two entities as discretely presented component units to emphasize that they are legally separate from the State. A more detailed discussion of the reporting entity can be found in Note 1 to the basic financial statements.



Oregon's Legislature adopts a budget each biennium, which forms the foundation for the State's financial planning and control. Details of the budget process and budgetary monitoring are presented in the notes to the required supplementary information.

### ***Current Economic Conditions***

Recent indicators reveal Oregon's economy is continuing to recover from the recession, although not as rapidly as the national economy. Despite a mild increase of jobs forecast for the fourth quarter of this year, 2003 will most likely be a job loss year, marking the third consecutive year of job declines. Monthly employment data show job increases for August and September which points to the end of the job-loss recovery and the start of economic growth that creates jobs. The most recent Blue Chip Job Growth rankings placed Oregon 42nd in the nation for year over year job growth between September 2002 and September 2003.

Although the present recession is similar in duration to the 1980-1982 recession, the proportion of job losses is not as deep. On a year over year basis, employment growth in the second quarter of 2003 was negative 3.4 percent. This was followed by an annualized job decline of 1.4 percent for the third quarter. While these declines were spread across all sectors, the industries most impacted by job losses on a year over year basis include high technology manufacturing, leisure and hospitality, information jobs, and state government jobs.

### ***Future Economic Outlook***

In the near term, Oregon's employment growth is expected to be mild. This year will mark the sixth in a row that Oregon will grow slower than the U.S. economy. We expect Oregon's economy to finish 2003 with a job loss of 0.6 percent. The State's economic growth in 2004 will likely be below that of the nation. Employment growth of 1.0 percent is expected in 2004, followed by employment growth of 2.4 percent in 2005.

We expect several sectors to post gains in the next year or so, while other industries will likely decline. Manufacturing will likely be flat in 2004 and post modest gains in 2005, as the uncertainty of the economy gradually clears and businesses begin spending more on capital equipment. The high technology sector is expected to show a substantial drop for 2003; however, the slowdown in this sector will slowly reverse and post job gains in 2004. Although construction sector jobs declined in 2003, this sector is expected to rebound in 2004 with modest growth. Even though rising mortgage rates will dampen residential housing, increases in jobs and income will mitigate this effect. Additional information on specific industries within the State is available on the Office of Economic Analysis web site at <http://www.oea.das.state.or.us>.

Employment growth is only one indicator of economic performance; there are many other factors to consider. For example, changes in personal income as well as wage and salary growth are reflective of ongoing economic conditions. We expect the State's personal income to finish 2003 with a rise of 2.9 percent, up from 2.5 percent growth in 2002. Stronger growth of 5.0 percent is expected for personal income in 2004, followed by 5.5 percent growth in 2005. In comparison, personal income for the U.S. will grow 3.2 percent in 2003, 5.1 percent in 2004, and 5.5 percent in 2005. Wage and salary income in Oregon will finish 2003 with mild growth of 1.0 percent followed by higher growth of 5.1 percent in 2004, and will increase in 2005 with growth of 6.2 percent.

Unemployment rates and population are also impacted by the changing economy. Oregon started 2003 with an unemployment rate estimated at 7.6 percent. By June, the rate had risen to 8.5 percent, but then moved back down to 7.6 percent by October. Oregon's rate was as much as 2.1 percentage points above that of the nation during 2003. It was the highest state rate in the nation every month from January to September. Oregon's unemployment rate is likely to remain well above that of the nation for at least a year or two more as the State continues to experience net in-migration and as the State's capital goods manufacturing industries slowly adjust and recover. With the quality of life we enjoy, Oregon is still attracting new residents although not as rapidly as during the mid-1990's. As Oregon's economy slowed down, population growth and net migration rates in 2002 and 2003 hit the lowest in over a decade. The State's population will increase from 3.537 million in 2003 to 3.624 million in 2005, with an annual growth rate ranging from 1.0 to 1.2 percent.

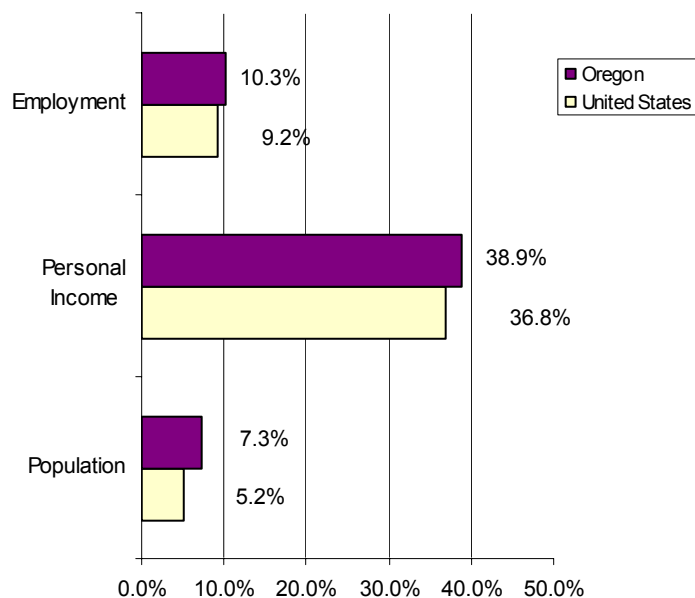
The changing demographics in Oregon will continue to influence the type of services that citizens need their State government to provide. The fastest growth will occur in the 45-64 year olds and the 18-24 year olds. This is due to the baby boom generation and their children entering these age groups. The rapid growth in 18-24 year olds will continue to place enrollment pressures on community colleges and public universities. Within the elderly population of those 65 and older, the greatest increase will occur in the 85 and older age group. This will provide a significant challenge to Oregonians in determining how to care for our aging citizens.

There are several risks now facing the Oregon economy. Primary risks include the uncertain impact of the transition out of war, a further major stock market correction, rising energy prices, and slower than expected recovery for semiconductors, software, and communications. If the stock market experienced another major correction, this could further slow already dampened consumer spending which is the main driving force in the economy. An additional risk to Oregon's economy is budget shortfalls. Oregon has seen a deeper drop in its revenues compared to most states. To the extent that spending cutbacks affect education and public infrastructure, the State could suffer longer-term impacts. The temporary income tax surcharge will be placed on the ballot in early February.

In summary, Oregon's economy is beginning to show signs of recovering from the recession, although the strength and speed of the recovery will be relatively mild in the next year or so. Employment growth is expected to be modest during the upcoming year, with higher growth projected for the next several years, beginning in 2005. The strength of personal income and consumer confidence will also have a significant impact on Oregon's economic recovery.

Oregon's employment, personal income and population growth are all expected to exceed the national average for the six-year period between 2003 and 2009, as shown by the chart below.

**Comparison of Long-Term Forecasts  
Oregon and United States Expected Growth from 2003 to 2009**



### **Cash Management**

The State Treasurer is responsible for the control of cash and the investment of State of Oregon funds. The Oregon Investment Council, of which the State Treasurer is a member, establishes investment policy for all State funds. To further Oregon's economic growth, the Council's continuing policy has been to invest locally when they can find investments of comparable yield, quality, and maturity in-state without damaging portfolio diversity. Fortunately for Oregonians, State-imposed safeguards minimize the dangers of investing in highly leveraged financial instruments.

State agencies deposit monies collected into the State Treasury. The State Treasurer pools all available cash into the Oregon Short-term Fund (OSTF), which invests in a variety of instruments. For the year ended December 31, 2002, the average monthly portfolio balance of the OSTF was \$7.5 billion and the average yield on these investments was 2.0 percent. The State Treasurer also manages separate investments for the Oregon Public Employees Retirement Fund, the Industrial Accident Fund, the Local Government Investment Pool, and numerous smaller funds such as the Insurance Fund and the Common School Fund.

The federal Cash Management Improvement Act requires that the federal government advance cash to the State in a timely manner. Conversely, the State must not draw federal cash in advance of needs. The State has established policies and procedures to comply with this act.

### ***Risk Management***

The Department of Administrative Services, through an insurance fund within the Central Services Fund, provides for the State's self-insurance programs and for the administration, investigation, and settlement of claims against the insurance fund. We explain this more fully in the notes accompanying the basic financial statements. In accordance with legislative directives, the insurance fund must operate on an actuarially sound basis.

### ***Awards***

The Government Finance Officers Association of the United States and Canada (GFOA) sponsors the Certificate of Achievement for Excellence in Financial Reporting. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. GFOA awarded the Certificate of Achievement to the State of Oregon for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002.

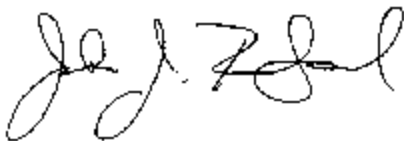
To earn a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is only valid for a period of one year. The State of Oregon has received a Certificate of Achievement for each of the last eleven years. We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate. We are committed to this effort and intend to maintain a highly qualified and professional staff to make Oregon's certification possible in the future.

### ***Acknowledgements***

The State Controller's Division takes great pride in the preparation of the Oregon Comprehensive Annual Financial Report. We greatly appreciate the professionalism, commitment, and effort of Statewide Accounting and Reporting Services and the other individuals involved. We also want to thank all state agencies for their continuing support in planning and conducting the financial operations of the State in a professionally responsible and progressive manner. Without the participation and cooperation of the agencies' fiscal units, the preparation of this report would not have been possible. In addition, we appreciate the contributions of the Office of Economic Analysis, the Budget and Management Division, the Oregon State Treasury, and the staff of the Secretary of State Audits Division.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John J. Radford". The signature is fluid and cursive, with the first and last names being more prominent.

John J. Radford, Administrator  
State Controller's Division  
State of Oregon

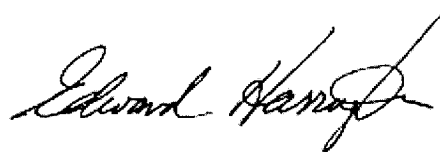
# Certificate of Achievement for Excellence in Financial Reporting

Presented to

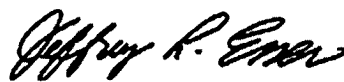
## State of Oregon

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

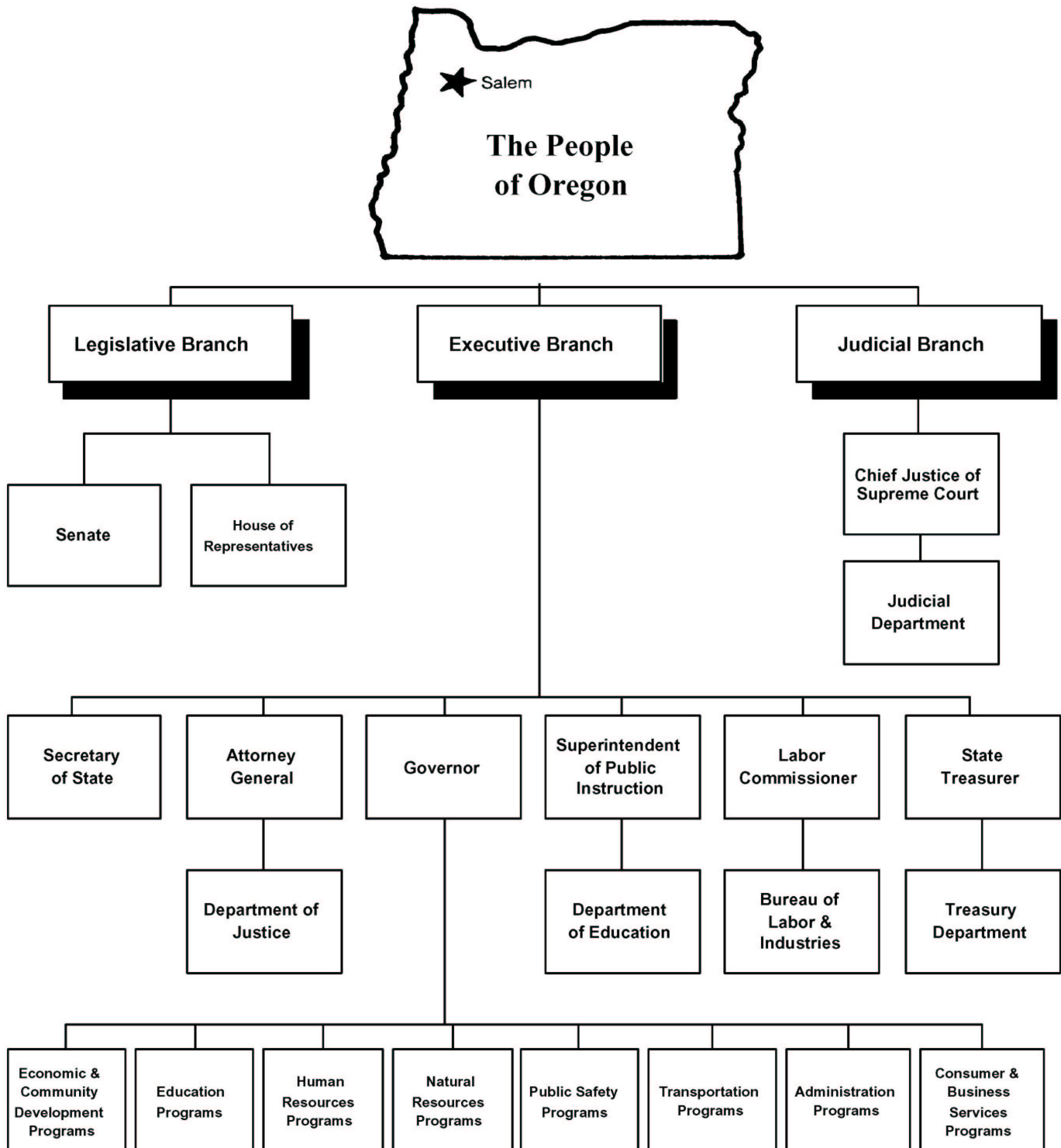


President



Executive Director

# STATE OF OREGON ORGANIZATION CHART



## Principal State Officials



### EXECUTIVE

**Theodore R. Kulongoski**, *Governor*

**Bill Bradbury**, *Secretary of State*

**Randall Edwards**, *State Treasurer*

**Hardy Myers**, *Attorney General*

**Dan Gardner**, *Commissioner, Labor and Industries*

**Susan Castillo**, *Superintendent of Public Instruction*

### LEGISLATIVE

**Peter Courtney**, *Senate President*

**Karen Minnis**, *Speaker of the House of Representatives*

### JUDICIAL

**Wallace P. Carson, Jr.**, *Chief Justice of the Supreme Court*

***"To Serve Our Public Well"***

Mission of Oregon State Service



# Financial Section

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*Auditing for a Better Oregon*

The Honorable Theodore R. Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97310-4047

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of and for the year ended June 30, 2003, which collectively comprise the State of Oregon's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Oregon's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Oregon Health and Science University, which represent 38 percent and 73 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Oregon Health and Science University is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



The management's discussion and analysis and budgetary comparison information on pages 12 through 21 and 92 through 98 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Oregon's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we issue a report on our consideration of the State of Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. We issue that report under separate cover in our *Single Audit Report* for the State of Oregon.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Bill Bradbury", with a stylized, flowing script.

Bill Bradbury  
Secretary of State

December 12, 2003

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State's comprehensive annual financial report presents our discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2003. This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. It is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund issues.

We encourage readers to consider the information presented in this analysis in conjunction with the transmittal letter beginning on page 2 of this report.

### FINANCIAL HIGHLIGHTS

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by \$13.7 billion (net assets). Of this amount, \$354.9 million (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors, while \$2.8 billion is restricted for specific uses.
- The State's total net assets decreased by \$321.7 million as a result of the year's operations. The decrease in net assets for governmental activities is 1.3 percent of total net assets, while the change for business-type activities is 1.1 percent of total net assets.
- As of the close of the most recent fiscal year, the State's governmental funds reported combined ending fund balances of \$2.3 billion. Of this amount, 63.5 percent is available for spending at the State's discretion (unreserved, undesignated fund balance).
- At fiscal year end, unreserved fund balance for the General Fund was \$19.3 million.
- The State's total debt outstanding for bonds and certificates of participation increased by \$579.2 million (10.6 percent) during the fiscal year. New issues of debt for single-family and multi-family mortgage loans as well as appropriation bonds for general government expenditures contributed to this increase.

### OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this discussion and analysis, the financial section of this annual report contains the *basic financial statements*, *required supplementary information*, and an optional presentation of *combining financial statements* for nonmajor funds, internal service funds, and fiduciary funds. A *statistical section* is presented following the combining financial statements. The basic financial statements contain three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide a broad overview of the State's finances, in a manner similar to a private-sector business. All of the State's activities are reported in the government-wide statements, except for activities accounted for in fiduciary funds because resources of those funds are not available to support the State's own programs.

- The *statement of net assets* presents information on *all* of the State's assets and liabilities, with the difference between the two reported as *net assets*.
- The *statement of activities* presents information showing how the State's net assets changed during the fiscal year. All of the changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes).

These two government-wide financial statements report the State's *net assets* and the change in net assets. Net assets, which represent the difference between assets and liabilities, are one measure of the State's financial health, or financial *position*. Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether its financial position is improving or deteriorating. However, to assess *the overall health* of the State, you need to consider additional non-financial factors such as changes in Oregon's income tax base and changes in Oregon's economy.

The government-wide financial statements of the State are divided into the following three categories:

1. **Governmental activities.** This includes the basic services provided by the State to its citizens, such as K-12 schools and community colleges, public assistance programs, public safety and public transportation. Income taxes and federal grants finance most of these activities. The State's internal service funds, which provide services to other departments or state agencies, are included in governmental activities because these services predominately benefit governmental programs rather than business-type functions.
2. **Business-type activities.** The State charges fees to customers to help cover the costs of certain services it provides. For example, the State administers loan programs to provide housing to citizens with low incomes and those who are elderly or disabled. The operation of the State's lottery is also reported under business-type activities as well as the Oregon University System, consisting of seven higher education facilities.
3. **Component units.** The State includes two other entities in its report: Oregon Health and Science University and the SAIF Corporation. Although legally separate, these "component units" are important because the State is financially accountable for them. Financial information for these component units is reported separately from the financial information of the State itself (known as the *primary government*).

The government-wide financial statements can be found on pages 24-27 of this report.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the State's most significant *funds* (not the State as a whole). Funds are accounting mechanisms the State uses to keep track of specific sources of funding and spending for particular purposes. Similar to other state and local governments, the State uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements. Some funds are required by state law (such as the Lottery Operations Fund) or bond covenants. The State establishes other funds to control and manage money for particular purposes (like health and social services) or to show that it is properly using certain taxes and grants (like gas taxes for transportation).

All of the State's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Most of the State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year end that are available for spending. Thus, the governmental fund statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the State's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide information following the governmental fund statements that reconciles the government-wide focus to the governmental fund focus.

The State maintains twenty-one individual governmental funds. Information is presented separately in the governmental fund financial statements for the five major governmental funds, including the general fund. Data from the other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The basic governmental fund financial statements can be found on pages 28-34 of this report.

**Proprietary funds.** Services for which the State charges customers a fee, similar to a business operation, are generally reported in proprietary funds. Proprietary fund statements, like the government-wide statements, provide both long-term and short-term financial information. The State's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. We use *internal service funds* (the other type of proprietary fund) to report activities that provide services to the State's other programs and activities (such as the State's Central Services Fund).

The proprietary fund financial statements provide separate information for the State's five major proprietary funds. Data from the other nine proprietary funds are combined into a single, aggregated presentation. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of the nonmajor proprietary funds and for each of the internal service funds is provided in the form of *combining statements* elsewhere in this report. The basic proprietary fund financial statements can be found on pages 36-45 of this report.

**Fiduciary funds.** Fiduciary funds account for resources held for the benefit of parties outside the government. The State is the trustee, or *fiduciary*, for its employees' pension plan. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. Fiduciary funds are accounted for in a manner similar to proprietary funds.

All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities have been excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations. The basic fiduciary fund financial statements include the investment trust fund, the agency fund, and aggregated data for the State's pension trust and private purpose trust funds. Individual fund data for each of the pension trust and private purpose trust funds is provided in the form of *combining statements* elsewhere in this report. The basic fiduciary fund financial statements can be found on pages 46-47 of this report.

### **Discretely Presented Component Units**

*Combining statements* that report activities of the State's component units, the SAIF Corporation and Oregon Health and Science University, can be found on pages 48-49 of this report. Although activity for component units is reported in the government-wide statements in an aggregate column, the combining statements provide greater detail for each component unit.

### **Notes to the Financial Statements**

The basic financial statements also include *notes*, which provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 50-88 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents a section of *required supplementary information* (RSI), beginning on page 89, which contains budget-to-actual comparison schedules for all of the State's budgeted appropriated funds as well as accompanying notes to the RSI.

The combining financial statements referred to earlier are presented immediately following the required supplementary information beginning on page 99 of this report. These combining statements provide details about our nonmajor governmental funds, nonmajor enterprise funds, and internal service funds, each of which are added together and presented in single columns in the basic financial statements. The combining financial statements also provide details about the fiduciary funds when data has been aggregated in a single column in the basic financial statements.

A statistical section containing selected financial, economic, and demographic information is presented immediately following the combining statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net assets.** The State's *combined* net assets for fiscal year 2003 were approximately \$13.7 billion as shown in Table 1. Most of this balance consists of capital assets (largely infrastructure). Since the State uses its capital assets to provide services to citizens, the amount of net assets invested in capital assets, net of related debt, is not available for future spending.

An additional portion of the State's net assets (20.5 percent) represents resources that are subject to restrictions on how they may be used. The remaining balance of *unrestricted* net assets of \$354.9 million may be used to provide ongoing services to citizens and meet ongoing obligations to creditors.

**Table 1**  
**State of Oregon's Net Assets**  
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 4,374.3	\$ 4,363.4	\$ 6,506.5	\$ 6,721.7	\$ 10,880.8	\$ 11,085.1
Capital assets	10,653.9	10,759.4	1,168.0	923.0	11,821.9	11,682.4
<b>Total assets</b>	<b>15,028.2</b>	<b>15,122.8</b>	<b>7,674.5</b>	<b>7,644.7</b>	<b>22,702.7</b>	<b>22,767.5</b>
Long-term liabilities	3,265.7	2,683.8	3,536.5	3,536.9	6,802.2	6,220.7
Other liabilities	1,359.4	1,951.6	881.2	808.1	2,240.6	2,759.7
<b>Total liabilities</b>	<b>4,625.1</b>	<b>4,635.4</b>	<b>4,417.7</b>	<b>4,345.0</b>	<b>9,042.8</b>	<b>8,980.4</b>
Net assets:						
Invested in capital assets, net of related debt	9,929.0	10,031.6	579.9	282.8	10,508.9	10,314.4
Restricted	342.8	526.2	2,453.3	2,477.4	2,796.1	3,003.6
Unrestricted	131.3	(70.4)	223.6	539.5	354.9	469.1
<b>Total net assets</b>	<b>\$ 10,403.1</b>	<b>\$ 10,487.4</b>	<b>\$ 3,256.8</b>	<b>\$ 3,299.7</b>	<b>\$ 13,659.9</b>	<b>\$ 13,787.1</b>

**Changes in net assets.** The State's *combined* change in net assets for fiscal year 2003 was a decrease of \$321.7 million as shown in Table 2. This is the amount of change associated with operations for the year. Both governmental and business-type activities had a decrease in net assets. A major factor that contributed to the reduction in governmental activities net assets was the issuance of additional long-term debt, such as \$431.6 million of general appropriation bonds and \$93.6 million of general obligation Oregon Opportunity Bonds. For business-type activities, the decrease in net assets was primarily due to the results of operations in the Unemployment Compensation Fund. During the year, distribution of benefits exceeded employee-employer assessments and other income, as Oregon's economic recession brought about greater numbers of people seeking unemployment benefits combined with the effects of unemployment assessments being paid for fewer workers. The decrease in net assets for governmental activities is 1.3 percent of total net assets, while the change for business-type activities is 1.1 percent of total net assets.

**Table 2**  
**State of Oregon's Changes in Net Assets**  
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 1,008.0	\$ 965.3	\$ 2,631.6	\$ 2,640.6	\$ 3,639.6	\$ 3,605.9
Operating grants and contributions	4,452.6	4,036.3	1,196.9	848.8	5,649.5	4,885.1
Capital grants and contributions	3.4	9.9	-	86.0	3.4	95.9
General revenues:						
Personal income taxes	4,073.3	4,096.4	-	-	4,073.3	4,096.4
Corporate income taxes	220.2	190.3	-	-	220.2	190.3
Other taxes	1,619.3	1,499.0	13.3	12.7	1,632.6	1,511.7
Other	31.5	67.3	.6	.6	32.1	67.9
<b>Total revenues</b>	<b>11,408.3</b>	<b>10,864.5</b>	<b>3,842.4</b>	<b>3,588.7</b>	<b>15,250.7</b>	<b>14,453.2</b>
<b>Expenses:</b>						
Education	2,915.0	3,363.7	-	-	2,915.0	3,363.7
Human resources	4,348.2	4,399.2	-	-	4,348.2	4,399.2
Public safety	842.9	862.2	-	-	842.9	862.2
Economic & community development	328.2	289.1	-	-	328.2	289.1
Natural resources	523.9	494.4	-	-	523.9	494.4
Transportation	1,417.8	1,239.6	-	-	1,417.8	1,239.6
Consumer and business services	278.5	319.9	-	-	278.5	319.9
Administration	700.6	567.7	-	-	700.6	567.7
Legislative	30.7	27.9	-	-	30.7	27.9
Judicial	205.9	232.2	-	-	205.9	232.2
Interest on long-term debt	4.1	-	-	-	4.1	-
Housing and community services	-	-	93.3	94.7	93.3	94.7
Veterans' loan	-	-	73.7	79.9	73.7	79.9
Lottery operations	-	-	505.0	485.3	505.0	485.3
Unemployment compensation	-	-	1,287.6	1,030.4	1,287.6	1,030.4
University system	-	-	1,605.5	1,552.0	1,605.5	1,552.0
Other business-type activities	-	-	411.5	409.5	411.5	409.5
<b>Total expenses</b>	<b>11,595.8</b>	<b>11,795.9</b>	<b>3,976.6</b>	<b>3,651.8</b>	<b>15,572.4</b>	<b>15,447.7</b>
Increase (decrease) before transfers	(187.5)	(931.4)	(134.2)	(63.1)	(321.7)	(994.5)
Transfers	16.4	(61.9)	(16.4)	61.9	-	-
<b>Increase (decrease) in net assets</b>	<b>(171.1)</b>	<b>(993.3)</b>	<b>(150.6)</b>	<b>(1.2)</b>	<b>(321.7)</b>	<b>(994.5)</b>
Net assets – beginning	10,487.4	2,645.5	3,299.7	4,247.1	13,787.1	6,892.6
Cumulative effect of accounting change	-	8,922.9	204.6	(987.8)	204.6	7,935.1
Prior period adjustments	86.8	(87.7)	(96.9)	41.6	(10.1)	(46.1)
Net assets – beginning – as restated	10,574.2	11,480.7	3,407.4	3,300.9	13,981.6	14,781.6
<b>Net assets – ending</b>	<b>\$ 10,403.1</b>	<b>\$ 10,487.4</b>	<b>\$ 3,256.8</b>	<b>\$ 3,299.7</b>	<b>\$ 13,659.9</b>	<b>\$ 13,787.1</b>

Figure 1 below illustrates fiscal year 2003 revenues of the State as a whole, by source. Approximately 37.1 percent comes from other entities and governments in the form of operating grants and contributions (e.g., federal revenues). An additional 28.2 percent of total revenue comes from personal and corporate income taxes and 23.8 percent comes from charges for services provided.

**Figure 1**  
**State of Oregon's Revenue by Source**  
**For the Year Ended June 30, 2003**

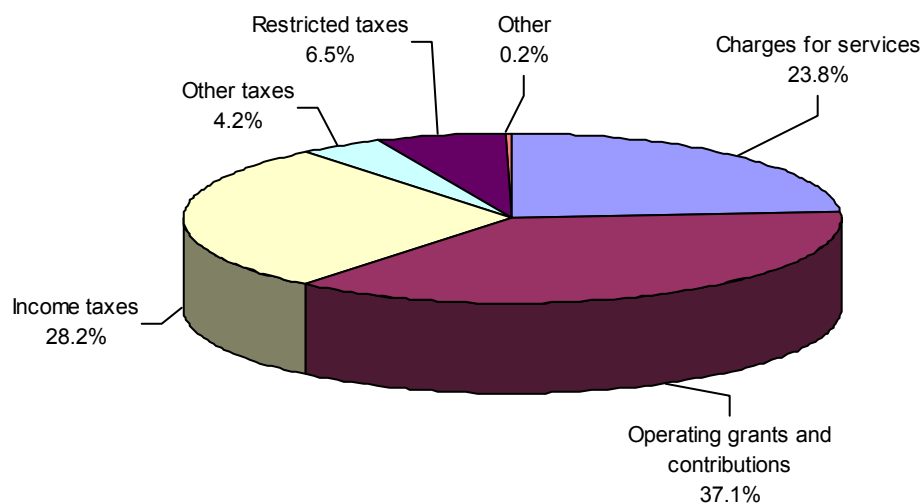
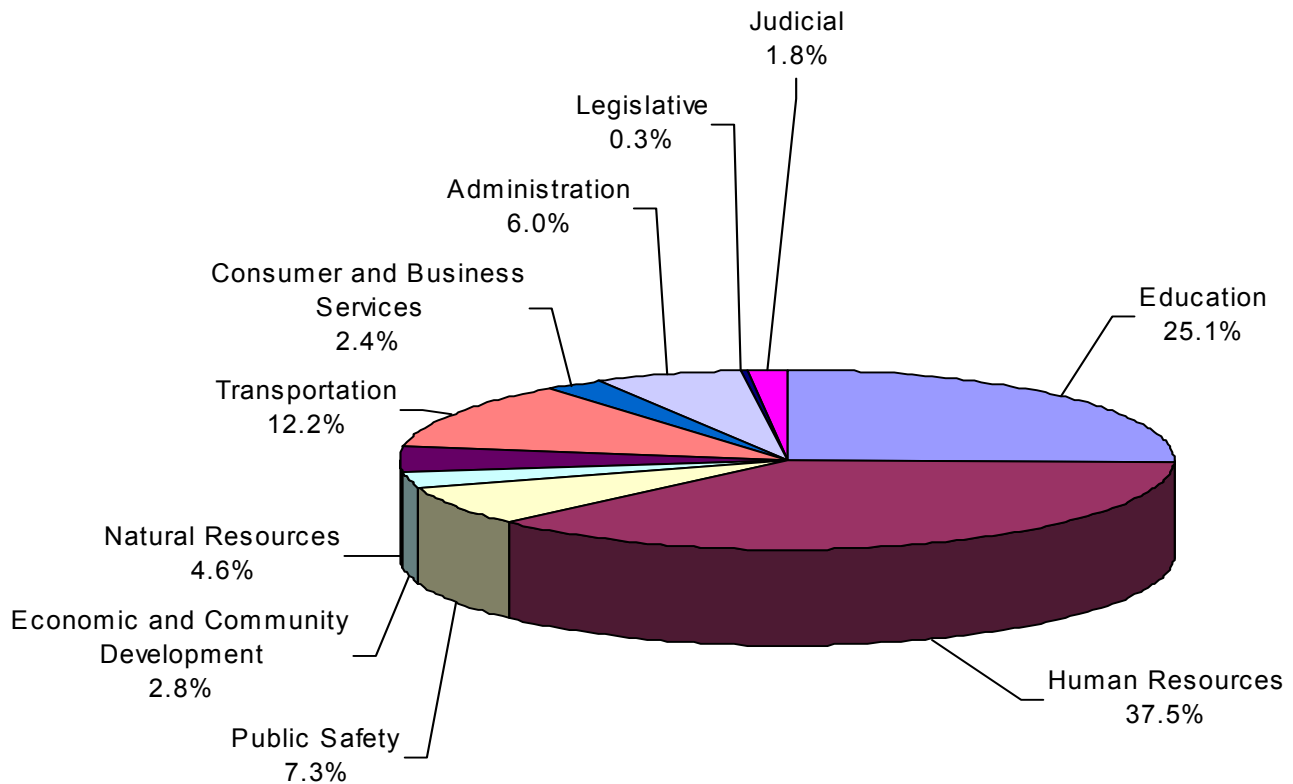


Figure 2 below shows the percentages of total governmental activity expenses for each function of the State. The largest portion of expenses is for human resources to provide for Oregon's citizens in need of assistance at 37.5 percent, with elementary and secondary education coming a close second at 25.1 percent of total expenses.

**Figure 2**  
**State of Oregon's Governmental Expenses by Function**  
**For the Year Ended June 30, 2003**



## FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the State of Oregon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* financial resources. In governmental funds, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2003, the State's governmental funds reported combined ending fund balances of \$2.3 billion, an increase of \$510.1 million in comparison with the prior year. This increase in fund balances is primarily attributed to the results of operations in the general fund as discussed below.

Approximately 63.5 percent of the total fund balance of governmental funds represents unreserved, undesignated fund balance, which is available for spending on governmental programs at the State's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed. For example, such commitments are to liquidate existing contracts and purchase orders, to pay debt service, or to pay claims and judgments.

The general fund is the chief operating fund of the State. At the end of fiscal year 2003, unreserved, undesignated fund balance of the general fund was \$19.3 million, while total fund balance was \$102.4 million.



Total fund balance of the general fund increased by \$1.1 billion from the prior year. During the year, spending cuts that resulted from legislative action to balance the 2001-03 budget were implemented. While revenues were approximately equivalent to last year, expenditures decreased by \$1.7 billion, contributing to the increase in total fund balance. Expenditures of the Health and Social Services fund increased by \$338.8 million over last year. With Oregon's economic recession, more citizens have needed assistance through programs such as economic independence and family stability, public health programs, mental health services, and medical assistance programs.

**Proprietary funds.** The State's *enterprise funds* provide the same type of information presented for business-type activities in the government-wide financial statements, but in more detail. Net assets as a percentage of total assets in the Housing and Community Services Fund remained unchanged from the prior year. This is a self-supporting activity, providing loans for housing that are funded through the issuance of bonds. As compared to the previous year, the net assets of the Veterans' Loan Fund decreased by 2.6 percent, while the net assets of the Lottery Operations Fund remained essentially unchanged. In the Unemployment Compensation Fund, distribution of benefits exceeded employee-employer assessments and other income during the year, as Oregon's economic recession brought about greater numbers of people seeking unemployment benefits combined with the effects of unemployment assessments being paid for fewer workers.

Restrictions and commitments significantly affect the availability of Housing and Community Services Fund resources for future use. For example, net assets that will be used to fund single-family and multi-family mortgage loans or residential housing developments for elderly and disabled persons are restricted through bond covenants. Net assets of the Unemployment Compensation Fund are restricted for payment of unemployment claims. A significant portion of University System Fund net assets are restricted for capital construction, higher education, debt service, and for purposes stipulated by donors of resources.

**Fiduciary funds.** Fiduciary funds account for resources held for the benefit of parties outside the government. Net assets of the Pension Trust Fund, which accounts for resources held in trust for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the Public Employees Retirement System, increased by \$2.4 billion. An increase in employer contributions contributed greatly to this increase in net assets. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

## GENERAL FUND BUDGETARY HIGHLIGHTS

For the 2001-2003 biennium, final budgeted expenditures for the general fund decreased by \$1.4 billion from the original budgeted expenditures. This legislatively approved reduction, balanced budgeted expenditures with revised projections of general fund revenue. On a percentage basis, program areas most impacted by appropriation reductions were economic and community development, which was reduced by 38.4 percent, and education, which was reduced by 17.1 percent. Some programs used other funding sources to offset these expenditure reductions. Final estimated revenues decreased by \$2.1 billion from the original budgeted revenues. This reduction was primarily due to lower income tax revenue projections.

Actual expenditures and other financing uses exceeded actual revenue and other financing sources by \$359.8 million for the 2001-2003 biennium. This difference was funded by resources carried forward from the prior biennium. Reductions in income tax revenues and the affects of Oregon's recession primarily contributed to the need to draw upon existing fund balances. For the biennium, actual revenues were less than budgetary estimates mainly due to lower than expected personal income tax revenues. Actual expenditures were less than budgeted expenditures, resulting from a concerted effort to reduce spending, particularly in the education, human resources, and public safety program areas.

## DEBT ADMINISTRATION

The State Debt Policy Advisory Commission advises the Governor and the legislative assembly regarding policies and actions that enhance and preserve the State's credit rating and maintain the future availability of low-cost capital financing. The State's debt credit ratings, which are an indication of the State's ability to repay its debt, were downgraded during the fiscal year as follows (Standard & Poor's rating did not change):

Changes in Oregon's General Obligation Bond Ratings	
Moody's Investors Service	From Aa2 to Aa3
Fitch Investors Service	From AA to A+

Debt outstanding for the years ended June 30, 2003 and 2002 is summarized in Table 3 below. The majority of new revenue bonds issued for business-type activities this year were multi-family housing revenue bonds and single-family mortgage revenue bonds. For governmental activities, the majority of new revenue bonds were issued to improve and expand local infrastructure facilities in Oregon communities through grants and loans to local governments.

During the fiscal year, \$93.6 million of general obligation bonds were issued to provide a grant to the Oregon Health and Science University to fund capital costs for its health care and biotechnology research program. Oregon appropriation bonds in the amount of \$431.6 million were issued to assist the State in balancing its budget for the 2001-2003 biennium. These bonds provided additional resources for the payment of general government expenditures. During the year, the State refinanced some of its existing debt to take advantage of favorable interest rates. Additional information on the State's long-term debt can be found in Note 9 of this report.

**Table 3**  
**State of Oregon's Outstanding Debt**  
**For the Years Ended June 30, 2003 and 2002**  
(dollars in millions)

	2003	2002	2003 Over (Under) 2002	
			Amount	Percent
General Obligation Bonds.....	\$2,312.8	\$2,385.9	\$ (73.1)	(3.1)%
General Appropriation Bonds .....	470.0	-	470.0	100.0%
Revenue Bonds .....	2,427.6	2,236.7	190.9	8.5%
Certificates of Participation .....	811.5	820.1	(8.6)	(1.0)%
<b>Totals .....</b>	<b>\$6,021.9</b>	<b>\$5,442.7</b>	<b>\$ 579.2</b>	<b>10.6%</b>

## CAPITAL ASSETS

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2003, is \$11.8 billion (net of accumulated depreciation) as summarized in Table 4. This investment in capital assets includes land, buildings, improvements, equipment, construction in progress, highways, tunnels and bridges, and works of art and historical treasures. The total increase in the State's investment in capital assets for the current fiscal year was 1.2 percent.

**Table 4**  
**State of Oregon's Capital Assets, Net of Depreciation**  
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 1,545.8	\$ 1,515.0	\$ 49.8	\$ 136.0	\$ 1,595.6	\$ 1,651.0
Buildings, property, and equipment	1,233.9	1,154.5	814.2	590.6	2,048.1	1,745.1
Construction in progress	647.3	404.5	236.1	133.8	883.4	538.3
Infrastructure	7,226.3	7,685.0	8.9	4.6	7,235.2	7,689.6
Works of art and historical treasures	.6	.5	59.0	58.0	59.6	58.5
<b>Total</b>	<b>\$ 10,653.9</b>	<b>\$ 10,759.5</b>	<b>\$ 1,168.0</b>	<b>\$ 923.0</b>	<b>\$ 11,821.9</b>	<b>\$ 11,682.5</b>

Major capital asset events during the fiscal year included the following:

- The State spent over \$343.0 million on 902 highway and bridge construction projects
- Nearly \$13.0 million was spent on capital equipment used to maintain highways and bridges, such as road graders, bulldozers, and similar vehicles
- Commitments of \$447.5 million have been made for highway and bridge construction

Additional information on the State's capital assets can be found in note 5 of this report.

## **ECONOMIC FACTORS AND NEXT BIENNIUM'S BUDGET**

- The unemployment rate for Oregon is currently 7.6 percent, up from 7.0 percent a year ago. This is higher than the national rate of 6.0 percent.
- Employment growth in the third quarter of 2003 was negative 1.4 percent, an indication that Oregon's economy is still in a recession.
- During the 2003 legislative session, a temporary (three year) income tax increase was enacted to help balance the General Fund budget for the 2003-2005 biennium. The temporary tax surcharge will be placed on the ballot in early February. If the tax increase is voted down, General Fund spending cuts will be needed to balance the 2003-2005 budget. The 2003 legislature drafted disappropriations that would take effect, if the tax increase is voted down, unless the legislature takes other action.
- Subsequent to June 30, 2003, the State issued \$741.7 million of Tax Anticipation Notes to meet seasonal cash needs within the 2003-2005 biennium.

These factors will likely have an impact on the State's budget for the 2003-2005 biennium.

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# ***Basic Financial Statements***

**Statement of Net Assets**  
**June 30, 2003**  
(In Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,224,819	\$ 1,735,192	\$ 2,960,011	\$ 411,101
Cash and Cash Equivalents - Restricted	181	26,886	27,067	-
Investments	232,921	220,687	453,608	2,219,424
Investments - Restricted	-	203,955	203,955	-
Securities Lending Cash Collateral	338,860	228,641	567,501	151,132
Accounts and Interest Receivable (net)	512,181	353,221	865,402	327,903
Taxes Receivable	276,090	-	276,090	-
Internal Balances	108,926	(108,926)	-	-
Due from Other Governments	92	13,936	14,028	-
Inventories	69,784	30,238	100,022	8,113
Prepaid Items	2,148	10,863	13,011	5,573
Foreclosed and Deeded Property	-	2,789	2,789	-
Total Current Assets	2,766,002	2,717,482	5,483,484	3,123,246
Noncurrent Assets:				
Cash and Securities Held in Trust	11,403	4	11,407	-
Cash and Cash Equivalents - Restricted	459,724	778,798	1,238,522	-
Investments	-	114,237	114,237	270,880
Investments - Restricted	89,131	870,370	959,501	539,515
Taxes Receivable	358,538	-	358,538	-
Deferred Charges	4,988	19,205	24,193	10,258
Interfund Loans	(4,131)	4,131	-	-
Net Contracts, Notes and Other Receivables	350,323	138,126	488,449	18,016
Loans Receivable	338,365	1,864,159	2,202,524	-
Capital Assets:				
Land	1,545,762	49,808	1,595,570	18,286
Buildings, Property and Equipment	1,953,768	1,769,097	3,722,865	1,140,132
Construction in Progress	647,347	236,076	883,423	29,977
Infrastructure	13,755,889	33,199	13,789,088	-
Works of Art and Historical Treasures	610	59,007	59,617	-
Less Accumulated Depreciation and Amortization	(7,249,503)	(979,192)	(8,228,695)	(481,537)
Total Noncurrent Assets	12,262,214	4,957,025	17,219,239	1,545,527
Total Assets	15,028,216	7,674,507	22,702,723	4,668,773

(continued on next page)

**Statement of Net Assets**

**June 30, 2003**

**(In Thousands)**

(continued from previous page)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current Liabilities:				
Accounts and Interest Payable	\$ 497,126	\$ 177,588	\$ 674,714	\$ 171,808
Obligations Under Securities Lending	338,860	228,641	567,501	151,132
Due to Other Governments	108,574	8,598	117,172	4,876
Matured Bonds/COPS and Coupons Payable	180	10,830	11,010	-
Obligations Under Capital Lease	8	351	359	528
Bonds/COPS Payable	84,770	338,631	423,401	6,172
Trust Funds Payable	185,383	18,032	203,415	-
Deferred Revenue	38,973	57,788	96,761	140,542
Compensated Absences Payable	105,555	40,745	146,300	32,791
Total Current Liabilities	1,359,429	881,204	2,240,633	507,849
Noncurrent Liabilities:				
Bonds/COPS Payable	2,135,004	3,411,361	5,546,365	553,330
Obligations Under Capital Lease	71	546	617	4,704
Claims and Judgments Payable	1,127,753	-	1,127,753	2,285,572
Lottery Prize Awards Payable	-	114,237	114,237	-
Arbitrage Rebate Payable	2,051	3,106	5,157	-
Net Contracts, Mortgages and Notes Payable	783	6,503	7,286	61,345
Trust Funds Payable	-	780	780	-
Total Noncurrent Liabilities	3,265,662	3,536,533	6,802,195	2,904,951
Total Liabilities	4,625,091	4,417,737	9,042,828	3,412,800
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	9,928,983	579,928	10,508,911	345,028
Expendable Restricted Net Assets:				
Restricted for Unemployment Compensation	-	1,519,731	1,519,731	338,003
Restricted for Residential Assistance	122,697	1,994	124,691	-
Restricted for Higher Education	-	164,983	164,983	-
Restricted for Debt Service	2,277	239,367	241,644	-
Restricted for Capital Construction	617	203,672	204,289	-
Restricted for Transportation	187,972	19,528	207,500	-
Restricted for Public Works Projects	-	106,068	106,068	-
Restricted for Workers' Compensation	21	-	21	-
Restricted for Education	618	-	618	166,853
Restricted for Natural Resource Programs	7,022	-	7,022	-
Restricted for Health Services	665	-	665	-
Restricted for Lottery Projects	-	49,251	49,251	-
Restricted for War Veterans' Programs	-	133,961	133,961	-
Nonexpendable Restricted Net Assets:				
Restricted for Donor Purposes	-	14,686	14,686	-
Restricted for Education	875	-	875	94,284
Restricted for Residential Assistance	16,168	-	16,168	-
Restricted for Natural Resource Programs	3,500	-	3,500	-
Restricted for Workers' Compensation	250	-	250	-
Restricted for Business Development	111	-	111	-
Unrestricted	131,349	223,601	354,950	311,805
Total Net Assets	\$ 10,403,125	\$ 3,256,770	\$ 13,659,895	\$ 1,255,973

The notes to the financial statements are an integral part of this statement.

**Statement of Activities  
For the Year Ended June 30, 2003  
(In Thousands)**

Functions/Programs	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
Education	\$ 2,915,016	\$ 15,623	\$ 450,718	\$ -	\$ (2,448,675)
Human Resources	4,348,175	196,489	2,798,470	-	(1,353,216)
Public Safety	842,881	37,561	84,923	1,012	(719,385)
Economic and Community Development	328,202	18,574	279,489	-	(30,139)
Natural Resources	523,941	293,441	117,501	392	(112,607)
Transportation	1,417,844	103,888	390,987	2,010	(920,959)
Consumer and Business Services	278,486	130,866	21,588	-	(126,032)
Administration	700,611	72,910	307,640	-	(320,061)
Legislative	30,717	1,519	11	-	(29,187)
Judicial	205,874	137,126	1,318	-	(67,430)
Interest on Long-term Debt	4,106	-	-	-	(4,106)
Total Governmental Activities	11,595,853	1,007,997	4,452,645	3,414	(6,131,797)
Business-type Activities:					
Housing and Community Services	93,326	75,080	26,341	-	8,095
Veterans' Loan	73,663	44,937	24,675	-	(4,051)
Lottery Operations	505,038	853,812	16,818	-	365,592
Unemployment Compensation	1,287,629	588,003	477,241	-	(222,385)
University System	1,605,464	663,214	628,033	-	(314,217)
Other Business-type Activities	411,495	406,586	23,745	-	18,836
Total Business-type Activities	3,976,615	2,631,632	1,196,853	-	(148,130)
Total Primary Government	\$ 15,572,468	\$ 3,639,629	\$ 5,649,498	\$ 3,414	\$ (6,279,927)
Component Units:					
SAIF Corporation	\$ 450,519	\$ 318,192	\$ 73,536	\$ -	\$ (58,791)
Oregon Health and Science University	1,092,187	665,097	445,129	27,889	45,928
Total Component Units	\$ 1,542,706	\$ 983,289	\$ 518,665	\$ 27,889	\$ (12,863)

(continued on next page)



**Statement of Activities**  
**For the Year Ended June 30, 2003**  
**(In Thousands)**  
(continued from previous page)

	<b>Primary Government</b>			<b>Component</b>
	<b>Governmental</b>	<b>Business-type</b>	<b>Total</b>	<b>Units</b>
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>	<b>Units</b>
Changes in Net Assets:				
Net (Expense) Revenue	\$ (6,131,797)	\$ (148,130)	\$ (6,279,927)	\$ (12,863)
General Revenues:				
Taxes:				
Personal Income Taxes	4,073,262	-	4,073,262	-
Corporate Income Taxes	220,175	-	220,175	-
Tobacco Taxes	255,482	-	255,482	-
Other Taxes	369,614	13,327	382,941	-
Restricted for Transportation Purposes:				
Motor Fuels Taxes	406,736	-	406,736	-
Weight Mile Taxes	213,935	-	213,935	-
Vehicle Registration Taxes	120,711	-	120,711	-
Restricted for Workers' Compensation Benefits:				
Employer-employee Taxes	252,810	-	252,810	-
Total Taxes	5,912,725	13,327	5,926,052	-
Unrestricted Investment Earnings	29,737	-	29,737	-
Capital Contributions	1,736	658	2,394	-
Transfers - Internal Activities	16,428	(16,428)	-	-
Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers	5,960,626	(2,443)	5,958,183	-
Change in Net Assets	(171,171)	(150,573)	(321,744)	(12,863)
Net Assets - Beginning	10,487,469	3,299,671	13,787,140	1,268,836
Cumulative Effect of Change in Accounting Principles	-	204,557	204,557	-
Prior Period Adjustments	86,827	(96,885)	(10,058)	-
Net Assets - Beginning - As Restated	10,574,296	3,407,343	13,981,639	1,268,836
<b>Net Assets - Ending</b>	<b>\$ 10,403,125</b>	<b>\$ 3,256,770</b>	<b>\$ 13,659,895</b>	<b>\$ 1,255,973</b>

The notes to the financial statements are an integral part of this statement.

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2003**  
(In Thousands)

	<u>General</u>	<u>Health and Social Services</u>	<u>Public Transportation</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ 177,432	\$ 442,229
Investments	-	-	-
Cash and Securities Held in Trust	-	-	8,511
Securities Lending Cash Collateral	22,732	72,309	76,531
Accounts and Interest Receivable (net)	15,412	128,360	66,985
Taxes Receivable	538,670	22,900	64,001
Due from Other Funds	57,686	30,404	43,451
Due from Other Governments	-	-	85
Inventories	23,772	818	20,378
Prepaid Items	1,448	41	-
Advances to Other Funds	51,157	-	-
Net Contracts, Notes and Other Receivables	19,206	99,697	3,940
Loans Receivable	157	-	-
<b>Total Assets</b>	<b>\$ 730,240</b>	<b>\$ 531,961</b>	<b>\$ 726,111</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts and Interest Payable	\$ 117,291	\$ 113,922	\$ 107,489
Obligations Under Securities Lending	22,732	72,309	76,531
Due to Other Funds	55,289	35,413	18,594
Due to Other Governments	2,259	7,157	50,590
Matured Bonds/COPS and Coupons Payable	91	-	-
Advances from Other Funds	2,773	176	-
Trust Funds Payable	2,301	9,156	8,512
Deferred Revenue	425,143	126,381	11,173
<b>Total Liabilities</b>	<b>627,879</b>	<b>364,514</b>	<b>272,889</b>
Fund Balances:			
Reserved for Encumbrances	6,526	2,338	-
Reserved for Inventories	23,772	818	20,378
Reserved for Loans Receivable	157	-	-
Reserved for Other Long-term Receivables	-	4,382	-
Reserved for Advances to Other Funds	51,157	-	-
Reserved for Prepaid Items	1,448	41	-
Reserved for Debt Service	-	-	-
Reserved for Permanent Fund Principal	-	-	-
Reserved for Claims and Judgments Payable	-	-	-
Reserved for Revolving Accounts	3	267	40
Unreserved, Undesignated	19,298	159,601	432,804
Unreserved, Undesignated, Reported in:			
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Permanent Funds	-	-	-
<b>Total Fund Balances</b>	<b>102,361</b>	<b>167,447</b>	<b>453,222</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 730,240</b>	<b>\$ 531,961</b>	<b>\$ 726,111</b>

The notes to the financial statements are an integral part of this statement.

State of Oregon

<u>Environmental Management</u>	<u>Educational Support</u>	<u>Other</u>	<u>Total</u>
\$ 240,224	\$ 47,846	\$ 611,666	\$ 1,519,397
2	4,965	240,393	245,360
662	-	2,230	11,403
36,565	-	115,906	324,043
72,734	23,447	133,016	439,954
-	4,444	4,614	634,629
24,840	16,075	170,169	342,625
-	7	-	92
16,506	27	5,514	67,015
98	68	434	2,089
-	-	-	51,157
4,092	34	223,296	350,265
241,872	37	96,299	338,365
<u>\$ 637,595</u>	<u>\$ 96,950</u>	<u>\$ 1,603,537</u>	<u>\$ 4,326,394</u>
\$ 26,617	\$ 15,764	\$ 76,291	\$ 457,374
36,565	-	115,906	324,043
4,533	87	124,598	238,514
17,225	7,383	23,963	108,577
-	-	89	180
320	271	52,512	56,052
1,262	228	3,229	24,688
5,878	4,347	230,671	803,593
<u>92,400</u>	<u>28,080</u>	<u>627,259</u>	<u>2,013,021</u>
20,336	279	7,885	37,364
16,506	27	5,514	67,015
241,872	37	96,299	338,365
320	-	1,476	6,178
-	-	-	51,157
98	68	434	2,089
-	-	145,613	145,613
-	-	20,905	20,905
-	-	173,733	173,733
367	3	271	951
265,696	68,456	-	945,855
-	-	488,200	488,200
-	-	32,073	32,073
-	-	3,875	3,875
<u>545,195</u>	<u>68,870</u>	<u>976,278</u>	<u>2,313,373</u>
<u>\$ 637,595</u>	<u>\$ 96,950</u>	<u>\$ 1,603,537</u>	<u>\$ 4,326,394</u>

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2003**  
(In Thousands)

**Total fund balances of governmental funds** **\$ 2,313,373**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 1,536,199	
Buildings, property and equipment	1,606,072	
Construction in progress	625,758	
Infrastructure	13,755,196	
Works of art and historical treasures	469	
Accumulated depreciation and amortization	<u>(7,095,669)</u>	
Total capital assets		10,428,025

Some of the State's revenues will be collected after year end but are not available soon enough to pay the current year liabilities and are therefore deferred in the funds. 764,952

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. 174,898

Unamortized debt issuance costs are reported as deferred charges for governmental activities in the Statement of Net Assets, but are reported as expenditures in the funds. 4,977

Some liabilities are not due and payable in the current year and therefore are not reported in the funds. Those liabilities consist of:

Bonds and COPS	(2,103,979)	
Accrued interest on bonds and COPS	(16,889)	
Claims and judgments	(1,056,519)	
Compensated absences	(99,294)	
Obligations under capital leases	(79)	
Income tax refunds	(4,625)	
Arbitrage rebate	<u>(1,715)</u>	
Total long-term liabilities		<u>(3,283,100)</u>

**Net assets of governmental activities** **\$ 10,403,125**

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**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2003**  
**(In Thousands)**

	<u>General</u>	<u>Health and Social Services</u>	<u>Public Transportation</u>
<b>Revenues:</b>			
Personal Income Taxes	\$ 4,008,315	\$ -	\$ -
Corporate Income Taxes	213,297	-	-
Tobacco Taxes	58,868	196,614	-
Motor Fuels Taxes	-	-	406,505
Weight-Mile Taxes	-	-	211,805
Employer-Employee Taxes	-	-	-
Vehicle Registration Taxes	-	-	120,711
Other Taxes	103,519	49,973	1,213
Licenses and Fees	18,055	40,736	42,099
Federal	-	2,284,672	483,943
Charges for Services	3,016	49,083	53,108
Fines and Forfeitures	2,035	607	4,415
Rents and Royalties	55	25	2,722
Investment Income	29,737	2,988	8,898
Sales	9,355	3,176	4,989
Donations and Grants	2	121,720	128
Tobacco Settlement Proceeds	-	85,255	-
Other	2,927	175,725	7,001
<b>Total Revenues</b>	<b>4,449,181</b>	<b>3,010,574</b>	<b>1,347,537</b>
<b>Expenditures:</b>			
Current:			
Education	1,587,349	-	-
Human Resources	1,052,863	2,884,205	-
Public Safety	585,659	-	-
Economic and Community Development	3,534	-	-
Natural Resources	53,090	-	-
Transportation	7,322	3,708	1,165,339
Consumer and Business Services	5,677	61,036	-
Administration	69,544	156,401	117,991
Legislative	27,251	-	-
Judicial	172,619	751	-
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	9,696	-	-
Interest	20,440	-	59
Other Debt Service	98	-	560
<b>Total Expenditures</b>	<b>3,595,142</b>	<b>3,106,101</b>	<b>1,283,949</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	854,039	(95,527)	63,588
<b>Other Financing Sources (Uses):</b>			
Transfers from Other Funds	109,936	87,719	8,916
Transfers to Other Funds	(372,326)	(318,957)	(92,075)
Long-Term Debt Issued	412,683	88,977	-
Debt Issuance Premium	37,317	4,675	2,438
Debt Issuance Discount	-	-	(15)
Refunded Debt Issued	-	-	60,130
Leases Incurred	107	-	-
Refunded Debt Payment to Escrow Agent	-	-	(62,041)
<b>Total Other Financing Sources (Uses)</b>	<b>187,717</b>	<b>(137,586)</b>	<b>(82,647)</b>
Net Change in Fund Balances	1,041,756	(233,113)	(19,059)
Fund Balances - Beginning	(973,590)	433,339	470,216
Prior Period Adjustments	34,933	(32,840)	-
Fund Balances - Beginning - As Restated	(938,657)	400,499	470,216
Change in Reserve for Inventories	(738)	61	2,065
<b>Fund Balances - Ending</b>	<b>\$ 102,361</b>	<b>\$ 167,447</b>	<b>\$ 453,222</b>

The notes to the financial statements are an integral part of this statement.

**State of Oregon**

<b><u>Environmental Management</u></b>	<b><u>Educational Support</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
\$ -	\$ -	\$ -	\$ 4,008,315
-	-	-	213,297
-	-	-	255,482
-	-	-	406,505
-	-	-	211,805
-	-	251,249	251,249
-	-	-	120,711
16,187	12,274	186,024	369,190
98,363	324	87,042	286,619
97,165	294,026	1,000,941	4,160,747
71,415	2,004	55,833	234,459
436	-	83,856	91,349
1,088	74	2,051	6,015
12,887	842	42,833	98,185
87,725	779	4,921	110,945
1,116	12,161	3,472	138,599
-	-	-	85,255
19,901	9,612	29,609	244,775
406,283	332,096	1,747,831	11,293,502
-	1,138,658	174,401	2,900,408
-	-	410,607	4,347,675
-	-	198,053	783,712
-	-	316,198	319,732
420,694	-	34,583	508,367
-	-	7,733	1,184,102
-	-	258,427	325,140
60	37,134	270,870	652,000
-	-	2,386	29,637
-	-	31,538	204,908
-	-	63,726	63,726
-	-	78,683	88,379
56	19	93,191	113,765
194	-	4,758	5,610
421,004	1,175,811	1,945,154	11,527,161
(14,721)	(843,715)	(197,323)	(233,659)
107,295	701,737	675,414	1,691,017
(35,087)	(7,389)	(844,981)	(1,670,815)
4,010	-	152,386	658,056
-	-	2,258	46,688
(19)	-	-	(34)
-	-	-	60,130
-	-	-	107
-	-	(502)	(62,543)
76,199	694,348	(15,425)	722,606
61,478	(149,367)	(212,748)	488,947
478,429	214,787	1,180,070	1,803,251
6,523	3,436	9,269	21,321
484,952	218,223	1,189,339	1,824,572
(1,235)	14	(313)	(146)
\$ 545,195	\$ 68,870	\$ 976,278	\$ 2,313,373

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2003  
(In Thousands)**

**Net change in fund balances of total governmental funds** **\$ 488,947**

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:

Capital outlay	\$	512,404	
Depreciation expense		(637,966)	
Excess of depreciation over capital outlays			(125,562)

The net effect of sales, transfers, and donations of capital assets is a decrease to net assets. (14,975)

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. (107)

Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. (764,840)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 150,922

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these items are deferred and amortized in the Statement of Activities. 13,996

Accrued interest on long-term debt does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds. (16,889)

Some expenses reported in the Statement of Activities do not require the use of current financial resources; thus, they are not reported as expenditures in governmental funds. 4,259

Some revenues will not be collected for several months after the State's fiscal year ends; thus, they are not considered "available" revenues and are deferred in the governmental funds. 128,275

Change in inventory is reported as a separate line after the change in fund balances in the governmental statements, but is included in expenses in the governmental activities. (146)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported within governmental activities. (35,051)

**Change in net assets of governmental activities** **\$ (171,171)**



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**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2003**  
(In Thousands)

**Business-type Activities — Enterprise Funds**

	<b><u>Housing and Community Services</u></b>	<b><u>Veterans' Loan</u></b>	<b><u>Lottery Operations</u></b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 4,124	\$ 128,982	\$ 131,332
Cash and Cash Equivalents - Restricted	16,537	7,131	-
Investments	-	-	12,368
Investments - Restricted	203,955	-	-
Securities Lending Cash Collateral	9,201	59,558	51,488
Accounts and Interest Receivable (net)	7,285	14,874	26,719
Due from Other Funds	197	-	-
Due from Other Governments	-	-	-
Inventories	-	4	2,154
Prepaid Items	-	22	553
Foreclosed and Deeded Property	2,486	303	-
Total Current Assets	243,785	210,874	224,614
Noncurrent Assets:			
Cash and Securities Held in Trust	-	-	-
Cash and Cash Equivalents - Restricted	50,063	353,982	3,125
Investments	-	-	114,237
Investments - Restricted	530,053	266,394	-
Deferred Charges	14,216	2,209	-
Advances to Other Funds	-	-	-
Net Contracts, Notes and Other Receivables	-	-	-
Loans Receivable	1,016,409	456,419	-
Capital Assets:			
Land	-	-	-
Buildings, Property and Equipment	1,411	9,956	61,345
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Historical Treasures	-	85	-
Less Accumulated Depreciation and Amortization	(1,254)	(4,647)	(35,551)
Total Noncurrent Assets	1,610,898	1,084,398	143,156
<b>Total Assets</b>	<b>\$ 1,854,683</b>	<b>\$ 1,295,272</b>	<b>\$ 367,770</b>

**Business-type Activities — Enterprise Funds**

<u>Unemployment Compensation</u>	<u>University System</u>	<u>Other</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 1,135,813	\$ 234,332	\$ 100,609	\$ 1,735,192	\$ 163,013
-	2,969	249	26,886	-
195,197	13,118	4	220,687	65,659
-	-	-	203,955	-
42,110	66,221	63	228,641	14,817
192,456	96,855	15,032	353,221	73,008
-	1,563	3,142	4,902	1,004
13,936	-	-	13,936	-
-	6,372	21,708	30,238	2,768
-	10,014	274	10,863	59
-	-	-	2,789	-
1,579,512	431,444	141,081	2,831,310	320,328
4	-	-	4	-
777	234,350	136,501	778,798	2,314
-	-	-	114,237	-
-	66,608	7,315	870,370	11,034
-	-	2,780	19,205	11
1,108	-	19,723	20,831	800
5,041	133,081	4	138,126	58
-	-	391,331	1,864,159	-
-	45,691	4,117	49,808	9,563
-	1,585,919	110,466	1,769,097	347,696
-	229,786	6,290	236,076	21,588
-	31,874	1,325	33,199	693
-	58,882	40	59,007	141
-	(881,550)	(56,190)	(979,192)	(153,835)
6,930	1,504,641	623,702	4,973,725	240,063
\$ 1,586,442	\$ 1,936,085	\$ 764,783	\$ 7,805,035	\$ 560,391

(continued on next page)

**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2003**  
**(In Thousands)**

(continued from previous page)

**Business-type Activities — Enterprise Funds**

	<b><u>Housing and Community Services</u></b>	<b><u>Veterans' Loan</u></b>	<b><u>Lottery Operations</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts and Interest Payable	\$ 36,201	\$ 17,547	\$ 31,446
Obligations Under Securities Lending	9,201	59,558	51,488
Due to Other Funds	38	-	93,705
Due to Other Governments	-	-	-
Matured Bonds/COPS and Coupons Payable	481	7,131	-
Obligations Under Capital Lease	-	-	45
Bonds/COPS Payable	184,790	104,119	-
Trust Funds Payable	-	1,911	97
Deferred Revenue	36	-	-
Compensated Absences Payable	296	454	1,752
Total Current Liabilities	<u>231,043</u>	<u>190,720</u>	<u>178,533</u>
Noncurrent Liabilities:			
Bonds/COPS Payable	1,451,164	964,911	-
Obligations Under Capital Lease	-	-	-
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	114,237
Arbitrage Rebate Payable	2,083	287	-
Contracts, Mortgages and Notes Payable	3,891	-	-
Trust Funds Payable	-	-	-
Advances from Other Funds	-	-	-
Total Noncurrent Liabilities	<u>1,457,138</u>	<u>965,198</u>	<u>114,237</u>
Total Liabilities	<u>1,688,181</u>	<u>1,155,918</u>	<u>292,770</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	157	5,393	25,749
Expendable Restricted Net Assets:			
Restricted for Unemployment Compensation	-	-	-
Restricted for Residential Assistance	1,994	-	-
Restricted for Higher Education	-	-	-
Restricted for Debt Service	159,847	-	-
Restricted for Capital Construction	-	-	-
Restricted for Transportation	-	-	-
Restricted for Public Works Projects	-	-	-
Nonexpendable Restricted Net Assets:			
Restricted for Donor Purposes	-	-	-
Unrestricted	4,504	133,961	49,251
Total Net Assets	<u>166,502</u>	<u>139,354</u>	<u>75,000</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,854,683</u>	<u>\$ 1,295,272</u>	<u>\$ 367,770</u>

The notes to the financial statements are an integral part of this statement.

**Business-type Activities — Enterprise Funds**

<u>Unemployment Compensation</u>	<u>University System</u>	<u>Other</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 6,754	\$ 64,816	\$ 20,824	\$ 177,588	\$ 19,001
42,110	66,221	63	228,641	14,817
8,377	17	6,836	108,973	648
7,355	-	1,243	8,598	-
-	2,969	249	10,830	-
-	297	9	351	-
-	26,737	22,985	338,631	7,296
916	8,949	6,159	18,032	160,696
1,199	55,657	896	57,788	333
-	31,150	7,093	40,745	6,260
66,711	256,813	66,357	990,177	209,051
-	648,865	346,421	3,411,361	108,498
-	520	26	546	-
-	-	-	-	71,234
-	-	-	114,237	-
-	408	328	3,106	336
-	2,612	-	6,503	783
-	-	780	780	-
-	13,851	2,849	16,700	448
-	666,256	350,404	3,553,233	181,299
66,711	923,069	416,761	4,543,410	390,350
-	427,084	121,545	579,928	110,060
1,519,731	-	-	1,519,731	-
-	-	-	1,994	-
-	164,983	-	164,983	-
-	56,015	23,505	239,367	-
-	194,577	9,095	203,672	-
-	-	19,528	19,528	-
-	-	106,068	106,068	-
-	14,686	-	14,686	-
-	155,671	68,281	411,668	59,981
1,519,731	1,013,016	348,022	3,261,625	170,041
\$ 1,586,442	\$ 1,936,085	\$ 764,783	\$ 7,805,035	\$ 560,391

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are included with the business-type activities.

	(4,855)
Net assets of business-type activities	\$ 3,256,770

**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2003**  
(In Thousands)

**Business-type Activities — Enterprise Funds**

	<b>Housing and Community Services</b>	<b>Veterans' Loan</b>	<b>Lottery Operations</b>
<b>Operating Revenues:</b>			
Assessments	\$ -	\$ -	\$ -
Other Taxes	-	-	-
Licenses and Fees	2,282	439	-
Federal	-	-	-
Charges for Services	1,175	3,890	-
Fines and Forfeitures	-	-	-
Rents and Royalties	-	494	-
Sales	-	-	853,360
Loan Interest Income	71,465	39,259	-
Investment Income	26,338	24,675	-
Gifts, Grants and Contracts	4	-	-
Other	39	815	452
Gain (Loss) on Foreclosed Property	119	39	-
Total Operating Revenues	<u>101,422</u>	<u>69,611</u>	<u>853,812</u>
<b>Operating Expenses:</b>			
Salaries and Wages	5,798	6,838	25,608
Services and Supplies	5,911	9,708	231,912
Cost of Goods Sold	-	-	-
Distributions to Other Governments	446	43	-
Special Payments	892	8	242,497
Bond and COP Interest	77,158	58,067	-
Other Debt Service	2,787	203	-
Depreciation and Amortization	104	431	5,124
Bad Debt Expense	15	(1,745)	-
Total Operating Expenses	<u>93,111</u>	<u>73,553</u>	<u>505,141</u>
Operating Income (Loss)	<u>8,311</u>	<u>(3,942)</u>	<u>348,671</u>
<b>Nonoperating Revenues (Expenses):</b>			
Investment Income	-	-	16,818
Other Nonoperating Items	-	-	-
Gain (Loss) on Disposition of Assets	-	2	-
Loan Interest Expense	(129)	(8)	-
Total Nonoperating Revenues (Expenses)	<u>(129)</u>	<u>(6)</u>	<u>16,818</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	8,182	(3,948)	365,489
Capital Contributions	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	-	-	(365,060)
Change in Net Assets	<u>8,182</u>	<u>(3,948)</u>	<u>429</u>
Net Assets - Beginning	158,320	143,107	74,571
Prior Period Adjustments	-	195	-
Cumulative Effect of Change in Accounting Principles	-	-	-
Net Assets - Beginning - As Restated	<u>158,320</u>	<u>143,302</u>	<u>74,571</u>
<b>Net Assets - Ending</b>	<u>\$ 166,502</u>	<u>\$ 139,354</u>	<u>\$ 75,000</u>

The notes to the financial statements are an integral part of this statement.

**State of Oregon**

**Business-type Activities — Enterprise Funds**

<u>Unemployment Compensation</u>	<u>University System</u>	<u>Other</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 569,182	\$ -	\$ -	\$ 569,182	\$ -
-	-	13,327	13,327	-
-	-	2,868	5,589	-
388,761	512,884	20,829	922,474	-
-	385,983	88,948	479,996	228,066
2,039	-	340	2,379	-
-	-	1,640	2,134	26,007
-	205,179	283,083	1,341,622	13,148
-	-	23,892	134,616	-
88,480	-	2,914	142,407	-
-	101,515	1	101,520	-
16,782	10,312	6,535	34,935	3,508
-	-	-	158	-
1,065,244	1,215,873	444,377	3,750,339	270,729
-	861,159	141,277	1,040,680	111,655
226	654,591	65,144	967,492	150,253
-	-	143,876	143,876	25,242
27,254	-	38,505	66,248	500
1,258,126	-	63	1,501,586	-
-	30,731	18,316	184,272	5,849
-	-	180	3,170	28
-	63,484	2,697	71,840	17,003
-	-	442	(1,288)	-
1,285,606	1,609,965	410,500	3,977,876	310,530
(220,362)	(394,092)	33,877	(227,537)	(39,801)
-	13,634	-	30,452	3,273
-	61,740	-	61,740	-
-	5,884	(805)	5,081	1,419
-	-	(198)	(335)	(121)
-	81,258	(1,003)	96,938	4,571
(220,362)	(312,834)	32,874	(130,599)	(35,230)
-	658	-	658	113
49	364,026	97,194	461,269	3,769
(21,053)	-	(92,285)	(478,398)	(7,207)
(241,366)	51,850	37,783	(147,070)	(38,555)
1,790,756	756,609	377,660	3,301,023	208,801
(29,659)	-	(67,421)	(96,885)	(205)
-	204,557	-	204,557	-
1,761,097	961,166	310,239	3,408,695	208,596
\$ 1,519,731	\$ 1,013,016	\$ 348,022	\$ 3,261,625	\$ 170,041

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with the business-type activities.

	(3,503)
Change in net assets of business-type activities	<u>\$ (150,573)</u>

**Statement of Cash Flows**

**Proprietary Funds**

**For the Year Ended June 30, 2003**

**(In Thousands)**

**Business-type Activities  
Enterprise Funds**

**Cash Flows from Operating Activities:**

	<b>Housing and Community Services</b>	<b>Veterans' Loan</b>	<b>Lottery Operations</b>
Receipts from Customers	\$ 3,519	\$ 5,235	\$ 850,698
Receipts from Other Funds for Services	-	796	-
Loan Principal Repayments	198,052	169,065	-
Loan Interest Received	71,758	39,969	-
Taxes and Assessments Received	-	-	-
Payments to Employees for Services	(5,762)	(6,934)	(25,657)
Payments to Suppliers	(4,979)	(6,843)	(233,042)
Payments to Other Funds for Services	(843)	(1,091)	-
Payments to Prize Winners	-	-	(219,273)
Claims Paid	-	-	-
Loans Made	(138,923)	(41,423)	-
Distributions to Other Governments	(446)	-	-
Other Receipts (Payments)	837	(244)	490

Net Cash Provided (Used) in Operating Activities

123,213 158,530 373,216

**Cash Flows from Noncapital Financing Activities:**

Proceeds from Bond/COP Sales	546,225	-	-
Loan Proceeds	3,102	-	-
Principal Payments on Bonds/COPS	(441,195)	(161,092)	-
Principal Payments on Loans	(3,211)	-	-
Interest Payments on Bonds/COPS	(79,429)	(62,064)	-
Interest Payments on Loans	(129)	(8)	-
Bond/COP Issuance Costs	(4,255)	(877)	-
Repayments on Advances Received	-	-	-
Interest Payments on Advances	-	-	-
Other Nonoperating Receipts	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(3,000)	-	(393,299)

Net Cash Provided (Used) in Noncapital Financing Activities

18,108 (224,041) (393,299)

**Cash Flows from Capital and Related Financing Activities:**

Proceeds from Bond/COP Sales	-	-	-
Principal Payments on Bonds/COPS	-	-	-
Interest Payments on Bonds/COPS	-	-	-
Bond/COP Issuance Costs	-	-	-
Repayments on Advances Made	-	-	-
Repayments on Advances Received	-	-	-
Interest Payments on Advances	-	-	-
Principal Payments on Loans	-	-	-
Interest Payments on Loans	-	-	-
Acquisition of Capital Assets	(83)	(229)	(2,008)
Payments on Capital Leases	-	-	(269)
Proceeds from Disposition of Capital Assets	-	2	81
Capital Contributions	-	-	-

Net Cash Provided (Used) in Capital and Related Financing Activities

(83) (227) (2,196)

**Cash Flows from Investing Activities:**

Purchases of Investments	(1,459,443)	(102,782)	(25,967)
Proceeds from Sales and Maturities of Investments	1,289,600	118,296	10,604
Interest on Investments and Cash Balances	20,376	23,610	16,259
Interest Income from Securities Lending	176	699	559
Interest Expense from Securities Lending	(159)	(631)	(483)

Net Cash Provided (Used) in Investing Activities

(149,450) 39,192 972

Net Increase (Decrease) in Cash and Cash Equivalents

(8,212) (26,546) (21,307)

Cash and Cash Equivalents - Beginning

78,936 516,641 155,764

Prior Period Adjustments Restating Beginning Cash Balances

- - -

**Cash and Cash Equivalents - Ending**

\$ 70,724 \$ 490,095 \$ 134,457



**Business-type Activities — Enterprise Funds**

<u>Unemployment Compensation</u>	<u>University System</u>	<u>Other</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 2,166	\$ 1,177,911	\$ 387,637	\$ 2,427,166	\$ 7,007
-	-	592	1,388	247,413
-	16,302	35,237	418,656	-
-	-	22,076	133,803	-
544,608	-	13,326	557,934	-
-	(860,322)	(142,010)	(1,040,685)	(114,294)
-	(572,643)	(204,701)	(1,022,208)	(131,443)
-	-	(5,879)	(7,813)	(17,824)
-	-	(196)	(219,469)	-
(1,271,880)	-	-	(1,271,880)	(10,855)
-	(14,203)	(85,039)	(279,588)	-
(29,194)	-	(39,512)	(69,152)	-
408,015	(32,362)	23,291	400,027	(1,206)
(346,285)	(285,317)	4,822	28,179	(21,202)
-	-	28,887	575,112	-
-	-	-	3,102	-
-	-	(41,992)	(644,279)	-
-	-	-	(3,211)	-
-	-	(16,935)	(158,428)	-
-	-	-	(137)	-
-	-	(672)	(5,804)	-
-	-	(215)	(215)	-
-	-	(79)	(79)	-
-	60,423	-	60,423	-
49	361,554	94,927	456,530	3,698
(12,679)	-	(93,730)	(502,708)	(8,425)
(12,630)	421,977	(29,809)	(219,694)	(4,727)
-	45,669	21,026	66,695	21,865
-	(26,019)	(14,084)	(40,103)	(21,140)
-	(26,381)	(1,727)	(28,108)	(5,668)
-	-	(211)	(211)	(377)
-	-	-	-	34
-	-	(319)	(319)	(661)
-	-	-	-	(80)
-	-	-	-	(303)
-	-	-	-	(47)
-	(187,741)	(1,542)	(191,603)	(37,556)
-	-	(98)	(367)	-
-	6,083	230	6,396	1,710
-	658	-	658	-
-	(187,731)	3,275	(186,962)	(42,223)
(85,519)	(7,210)	(7,756)	(1,688,677)	(23,904)
77,463	-	7,562	1,503,525	40,932
85,539	12,557	2,934	161,275	5,138
277	606	1	2,318	127
(226)	(542)	(1)	(2,042)	(108)
77,534	5,411	2,740	(23,601)	22,185
(281,381)	(45,660)	(18,972)	(402,078)	(45,967)
1,417,971	517,311	256,611	2,943,234	211,336
-	-	(280)	(280)	(42)
\$ 1,136,590	\$ 471,651	\$ 237,359	\$ 2,540,876	\$ 165,327

(continued on next page)

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2003**  
(In Thousands)  
(continued from previous page)

	Business-type Activities		
	Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>			
Operating Income (Loss)	\$ 8,311	\$ (3,942)	\$ 348,671
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	104	431	5,124
Amortization of Bond/COP Issuance Costs	-	76	-
Amortization of Bond/COP Premium and Discount	70	(143)	-
Amortization of Deferred Charges	1,375	126	-
Bad Debt Expense	15	(1,745)	-
Interest Income Reported as Operating Revenue	(26,338)	(24,675)	-
Investment Expense Reported as Operating Expense	159	631	483
Interest Payments Reported as Operating Expense	77,088	58,210	-
Bond/COP Issuance Costs Reported as Operating Expense	1,405	877	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	380	832	(2,624)
Due from Other Funds	(105)	27	-
Due from Other Governments	-	-	-
Inventories	-	-	176
Prepaid Items	15	20	(19)
Foreclosed and Deeded Property	(627)	47	-
Deferred Charges	-	-	-
Loans Receivable	61,401	127,855	-
Net Contracts, Mortgages, Notes and Other Receivables	-	-	-
Accounts and Interest Payable	(54)	246	21,520
Due to Other Funds	14	-	-
Due to Other Governments	-	-	-
Trust Funds Payable	-	(244)	(66)
Deferred Revenue	9	-	-
Claims and Judgments Payable	-	-	-
Contracts, Mortgages and Notes Payable	-	-	-
Compensated Absences Payable	(9)	(99)	(49)
Total Adjustments	114,902	162,472	24,545
Net Cash Provided (Used) by Operating Activities	\$ 123,213	\$ 158,530	\$ 373,216
<b>Noncash Investing and Capital and Related Financing Activities:</b>			
Net Change in Fair Value of Investments	\$ 8,773	\$ (735)	\$ 14,002
Matured Investment Reported as Receivable	-	6,000	-
Capital Leases Entered into During the Year	-	-	-
Capital Assets Transferred to Governmental Funds	-	-	-
Foreclosed Property	6,370	335	-
<b>Total Noncash Investing and Capital and Related Financing Activities</b>	<b>\$ 15,143</b>	<b>\$ 5,600</b>	<b>\$ 14,002</b>

The notes to the financial statements are an integral part of this statement.

**Business-type Activities — Enterprise Funds**

<u>Unemployment Compensation</u>	<u>University System</u>	<u>Other</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ (220,362)	\$ (394,092)	\$ 33,877	\$ (227,537)	\$ (39,801)
-	63,484	2,697	71,840	17,003
-	-	101	177	-
-	-	146	73	-
-	-	83	1,584	485
-	-	442	(1,288)	-
(88,480)	-	(2,914)	(142,407)	-
226	-	1	1,500	-
-	30,731	18,170	184,199	5,259
-	-	658	2,940	377
(20,651)	(179)	2,271	(19,971)	(1,798)
-	-	4,995	4,917	(509)
(3,728)	-	-	(3,728)	-
-	(15)	(580)	(419)	4,108
-	1,733	(450)	1,299	428
-	-	-	(580)	-
-	-	-	-	194
-	-	(49,724)	139,532	-
2,375	2,206	(5)	4,576	-
(16,129)	6,816	(3,141)	9,258	1,822
-	-	(1,603)	(1,589)	433
(9,186)	-	(72)	(9,258)	-
-	(253)	76	(487)	(1,098)
9,650	1,968	141	11,768	(14,911)
-	-	-	-	6,614
-	2,284	-	2,284	274
-	-	(347)	(504)	(82)
(125,923)	108,775	(29,055)	255,716	18,599
\$ (346,285)	\$ (285,317)	\$ 4,822	\$ 28,179	\$ (21,202)
\$ 7,634	\$ 844	\$ 70	\$ 30,588	\$ 2,003
-	-	-	6,000	-
-	524	-	524	-
-	-	(69)	(69)	-
-	-	-	6,705	-
\$ 7,634	\$ 1,368	\$ 1	\$ 43,748	\$ 2,003

**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2003**  
**(In Thousands)**

	<b>Pension Trust</b>	<b>Private Purpose Trust</b>	<b>Investment Trust</b>	<b>Agency</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 2,397,295	\$ 53,850	\$ 3,427,707	\$ 78,817
Receivables:				
Employer Contributions	30,559	-	-	-
Employee Contributions	23,914	-	-	-
Interest and Dividends	108,115	857	7,788	-
Investment Sales	1,131,948	5,633	-	-
Accounts	-	743	-	5,161
From Other Funds	11,932	366	-	-
Total Receivables	1,306,468	7,599	7,788	5,161
Investments:				
Fixed Income	9,280,302	102,364	-	-
Equity	21,038,177	-	-	-
Real Estate	1,720,012	5,267	-	-
Alternative Equity	4,001,041	-	-	-
Postemployment Health Commingled Investments	85,964	-	-	-
Mutual Funds	577,049	605,234	-	-
Total Investments	36,702,545	712,865	-	-
Cash and Securities Held in Trust	-	3,255	-	1,431,651
Securities Lending Cash Collateral	2,069,625	14,557	433,450	-
Inventories	6	27	-	-
Prepaid Items	1,516	-	-	-
Advance to Other Funds	-	412	-	-
Net Contracts, Notes and Other Receivables	-	368	-	134,194
Conservatorship and Custodial Assets	-	4,460	-	42
Receivership Assets	-	-	-	66,721
Loans Receivable	-	648	-	-
Capital Assets (net of accumulated depreciation):				
Land	836	803	-	-
Buildings, Property and Equipment	7,124	331	-	-
Infrastructure	-	2,815	-	-
Works of Art and Historical Treasures	-	25	-	-
<b>Total Assets</b>	<b>42,485,415</b>	<b>802,015</b>	<b>3,868,945</b>	<b>1,716,586</b>
<b>LIABILITIES</b>				
Accounts and Interest Payable	2,503,777	43,626	112,264	7
Obligations Under Securities Lending	2,069,625	14,557	433,450	-
Due to Other Funds	11,932	762	-	-
Due to Other Governments	-	-	-	1,811
Trust Funds Payable	112,119	152,347	-	1,714,768
Bonds/COPS Payable	52,145	-	-	-
Compensated Absences Payable	-	213	-	-
Contracts, Mortgages and Notes Payable	-	959	-	-
<b>Total Liabilities</b>	<b>4,749,598</b>	<b>212,464</b>	<b>545,714</b>	<b>1,716,586</b>
<b>NET ASSETS</b>				
Held in Trust for:				
Employees' Pension Benefits	37,041,242	-	-	-
Employees' Postemployment Healthcare Benefits	116,519	-	-	-
External Investment Pool Participants	-	-	3,323,231	-
Individuals, Organizations and Other Governments	578,056	589,551	-	-
<b>Total Net Assets</b>	<b>\$ 37,735,817</b>	<b>\$ 589,551</b>	<b>\$ 3,323,231</b>	<b>\$ -</b>

The notes to the financial statements are an integral part of this statement.

**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2003**  
(In Thousands)

	<b><u>Pension Trust</u></b>	<b><u>Private Purpose Trust</u></b>	<b><u>Investment Trust</u></b>
<b>ADDITIONS</b>			
Contributions:			
Employer	\$ 2,621,838	\$ -	\$ -
Employee	517,648	-	-
Other Sources	21,437	-	-
Total Contributions	3,160,923	-	-
Investment Income:			
Net Appreciation in Fair Value of Investments	866,836	5,827	-
Interest, Dividends and Other Investment Income	817,716	21,932	72,044
Total Investment Income	1,684,552	27,759	72,044
Less Investment Expense	200,104	169	6,826
Net Investment Income	1,484,448	27,590	65,218
Licenses and Fees	-	283	-
Charges for Services	-	65	-
Fines and Forfeitures	-	92	-
Rents and Royalties	-	2,822	-
Sales	-	43	-
Gifts, Grants, and Contracts	-	661	-
Other Income	1,009	14,131	-
Share Transactions:			
Participant Contributions	-	-	12,296,015
Participant Withdrawals	-	-	12,443,160
Net Share Transactions	-	-	(147,145)
Transfers from Other Funds	-	10,034	-
<b>Total Additions</b>	<b>4,646,380</b>	<b>55,721</b>	<b>(81,927)</b>
<b>DEDUCTIONS</b>			
Pension Benefits	2,027,997	-	-
Death Benefits	5,923	-	-
Contributions Refunded	42,640	-	-
Healthcare Premium Subsidies	109,778	-	-
Distributions to Participants	-	-	64,396
Administrative Expenses	19,720	19,352	-
Payments in Accordance with Trust Agreements	-	41,167	-
Transfers to Other Funds	-	9,736	-
<b>Total Deductions</b>	<b>2,206,058</b>	<b>70,255</b>	<b>64,396</b>
Change in Net Assets Held in Trust For:			
Employees' Pension Benefits	2,407,656	-	-
Employees' Postemployment Healthcare Benefits	655	-	-
External Investment Pool Participants	-	-	(146,323)
Individuals, Organizations and Other Governments	32,011	(14,534)	-
Net Assets - Beginning	35,295,495	604,933	3,469,554
Prior Period Adjustments	-	(848)	-
Net Assets - Beginning - As Restated	35,295,495	604,085	3,469,554
<b>Net Assets - Ending</b>	<b>\$ 37,735,817</b>	<b>\$ 589,551</b>	<b>\$ 3,323,231</b>

The notes to the financial statements are an integral part of this statement.

**Combining Balance Sheet**  
**Discretely Presented Component Units**  
**June 30, 2003**  
(In Thousands)

	<b>SAIF Corporation</b>	<b>Oregon Health and Science University</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 380,439	\$ 30,662	\$ 411,101
Investments	2,179,928	39,496	2,219,424
Securities Lending Cash Collateral	151,132	-	151,132
Accounts and Interest Receivable (net)	179,208	148,695	327,903
Inventories	132	7,981	8,113
Prepaid Items	-	5,573	5,573
Total Current Assets	<u>2,890,839</u>	<u>232,407</u>	<u>3,123,246</u>
Noncurrent Assets:			
Investments	-	270,880	270,880
Investments - Restricted	-	539,515	539,515
Deferred Charges	-	10,258	10,258
Net Contracts, Notes and Other Receivables	-	18,016	18,016
Capital Assets:			
Land	2,922	15,364	18,286
Buildings, Property and Equipment	48,515	1,091,617	1,140,132
Construction in Progress	-	29,977	29,977
Less Accumulated Depreciation and Amortization	(26,252)	(455,285)	(481,537)
Total Noncurrent Assets	<u>25,185</u>	<u>1,520,342</u>	<u>1,545,527</u>
<b>Total Assets</b>	<u><u>\$ 2,916,024</u></u>	<u><u>\$ 1,752,749</u></u>	<u><u>\$ 4,668,773</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts and Interest Payable	\$ 63,149	\$ 108,659	\$ 171,808
Obligations Under Securities Lending	151,132	-	151,132
Obligations Under Capital Lease	-	528	528
Due to Other Governments	4,876	-	4,876
Bonds/COPS Payable	-	6,172	6,172
Deferred Revenue	67,721	72,821	140,542
Compensated Absences Payable	3,026	29,765	32,791
Total Current Liabilities	<u>289,904</u>	<u>217,945</u>	<u>507,849</u>
Noncurrent Liabilities:			
Bonds/COPS Payable	-	553,330	553,330
Obligations Under Capital Lease	-	4,704	4,704
Claims and Judgments Payable	2,262,932	22,640	2,285,572
Net Contracts, Mortgages and Notes Payable	-	61,345	61,345
Total Noncurrent Liabilities	<u>2,262,932</u>	<u>642,019</u>	<u>2,904,951</u>
Total Liabilities	<u>2,552,836</u>	<u>859,964</u>	<u>3,412,800</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	25,185	319,843	345,028
Expendable Restricted Net Assets:			
Restricted for Workers' Compensation	338,003	-	338,003
Restricted for Education Purposes	-	166,853	166,853
Nonexpendable Restricted Net Assets:			
Restricted for Education Purposes	-	94,284	94,284
Unrestricted	-	311,805	311,805
Total Net Assets	<u>363,188</u>	<u>892,785</u>	<u>1,255,973</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 2,916,024</u></u>	<u><u>\$ 1,752,749</u></u>	<u><u>\$ 4,668,773</u></u>

The notes to the financial statements are an integral part of this statement.

**Combining Statement of Revenues, Expenses and  
Changes in Fund Net Assets  
Discretely Presented Component Units  
For the Year Ended June 30, 2003  
(In Thousands)**

	<b>SAIF Corporation</b>	<b>Oregon Health and Science University</b>	<b>Total</b>
<b>Operating Revenues:</b>			
Charges for Services	\$ 295,092	\$ 599,821	\$ 894,913
Sales	-	19,206	19,206
Investment Income	73,536	-	73,536
Gifts, Grants and Contracts	-	374,878	374,878
Auxiliary Enterprises (net)	-	11,293	11,293
Other	23,100	34,777	57,877
Total Operating Revenues	<u>391,728</u>	<u>1,039,975</u>	<u>1,431,703</u>
<b>Operating Expenses:</b>			
Salaries and Wages	54,990	621,822	676,812
Services and Supplies	55,294	357,735	413,029
Special Payments	335,012	-	335,012
Bond and COP Interest	-	17,513	17,513
Depreciation and Amortization	3,482	74,795	78,277
Bad Debt Expense	1,741	18,994	20,735
Total Operating Expenses	<u>450,519</u>	<u>1,090,859</u>	<u>1,541,378</u>
Operating Income (Loss)	<u>(58,791)</u>	<u>(50,884)</u>	<u>(109,675)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Investment Income	-	25,097	25,097
Gain (Loss) on Disposition of Assets	-	(1,328)	(1,328)
State Appropriations	-	45,154	45,154
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>68,923</u>	<u>68,923</u>
Income (Loss) Before Capital Contributions	<u>(58,791)</u>	<u>18,039</u>	<u>(40,752)</u>
Capital Contributions	-	27,889	27,889
Change in Net Assets	<u>(58,791)</u>	<u>45,928</u>	<u>(12,863)</u>
Net Assets - Beginning	<u>421,979</u>	<u>846,857</u>	<u>1,268,836</u>
<b>Net Assets - Ending</b>	<u><u>\$ 363,188</u></u>	<u><u>\$ 892,785</u></u>	<u><u>\$ 1,255,973</u></u>

The notes to the financial statements are an integral part of this statement.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**A. Reporting Entity.** The State of Oregon (State) was admitted to the Union in 1859 and is governed by an elected governor and a ninety-member elected legislative body. The accompanying financial statements present the State, which includes all agencies, boards, commissions, courts, and colleges and universities that are legally part of the State (primary government) and its component units. Component units are legally separate entities for which a primary government is financially accountable. The State's discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State.

### Discretely Presented Component Units

The component unit column in the government-wide financial statements includes the data of the State's two discretely presented component units.

- SAIF Corporation (SAIF) is a public corporation, created by an act of the Legislature, which is authorized to write workers' compensation insurance coverage in Oregon and certain other jurisdictions as required by the Department of Consumer and Business Services and to service accounts in the assigned risk pool. SAIF is governed by a board of directors appointed by the Governor, and is financed solely through policyholder premiums and investment income. SAIF reports on a fiscal year ended December 31, and uses proprietary fund accounting principles. The December 31, 2002, financial information of SAIF is included in this report.
- The Oregon Health and Science University (OHSU) is a governmental entity performing governmental functions and exercising governmental powers. OHSU is an independent public corporation governed by a board of directors appointed by the Governor and confirmed by the Senate. It is an academic health center that provides education and training to health care professionals, conducts biomedical research, and provides patient care and public service. It is financed primarily through patient service fees, government grants and contracts, tuition charges, and other incidental fees. OHSU also receives general fund monies from the State. The State legislature has acknowledged its intent to make funds available to pay any shortfall in general obligation bonds issued for OHSU purposes prior to July 1, 1995, when OHSU became an independent public corporation. OHSU uses proprietary fund accounting principles.

Complete financial statements for each of the individual component units may be obtained from their respective administrative offices or from the State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

### Related Organizations

The following professional and occupational licensing boards are semi-independent: the Board of Architect Examiners, the Board of Examiners for Engineering and Land Surveying, the Landscape Architect Board, the Board of Geologist Examiners, the Board of Optometry, the Board of Massage Therapists, the Physical Therapists Licensing Board, the Appraiser Certification and Licensure Board, and the Landscape Contractors Board. Although the Governor appoints the administrators of these boards, the boards are all self-supporting. The State has no financial accountability for these related organizations.

The Oregon Utility Notification Center (OUNC) is an independent nonprofit public corporation. Although the Governor appoints members to OUNC's board of directors, OUNC is funded through fees paid by operators of underground facilities who subscribe to OUNC. The OUNC receives no general fund monies, and the State has no financial accountability for OUNC.

**B. Government-wide and Fund Financial Statements.** The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The effect of interfund activity has been eliminated from these statements through consolidation, except for interfund activity that represents a true exchange of goods and services between funds. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Interfund activity within governmental and within business-type activities has been eliminated through consolidation; however, balances due and resource flows between governmental and business-type activities have not been eliminated. The *primary government* is reported separately from its *component units*.



**State of Oregon**  
**Notes to the Financial Statements**

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The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Included in direct expenses are administrative overhead charges for centralized services charged to functions through internal service funds. *Program revenues* include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) operating grants and contributions that are restricted to meeting the operational requirements of a particular function, and 3) capital grants and contributions that are restricted to meeting the capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.** The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the year. For this purpose, the State considers revenues to be available if they are collected within 90 days of the end of the current fiscal year. Primary revenue sources susceptible to accrual are income taxes, excise taxes, fines, forfeitures, and federal revenues. Derived tax revenue, net of estimated refunds, is recognized in the fiscal year in which it becomes measurable and available. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Revenue items not susceptible to accrual are considered to be measurable and available only when cash is received; for example, license and fee revenue, the principal portion of loan repayments, and cash sales of goods and services.

Expenditures generally are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund and accounts for all financial resources of the general government, except those accounted for in another fund.

The *Health and Social Services Fund* accounts for programs that provide assistance, services, training, and health care to individuals and families who do not have sufficient resources to meet their basic needs. The primary sources of funding for these programs come from federal grants, cigarette taxes, insurance premiums, and non-federal grants and donations.

The *Public Transportation Fund* accounts for the planning, design, construction, and maintenance of highways, roads, bridges, and public systems relating to air, water, rail, and highway transportation. Funding is provided from dedicated highway user taxes and vehicle registration taxes in addition to various federal highway administration funds.

The *Environmental Management Fund* accounts for programs that promote, protect, and preserve the State's forests, parks, wildlife, fish, and waterways. The main funding sources for these programs are usage fees, federal grants, and sales revenue.

The *Educational Support Fund* is used to account for programs that provide students opportunities to develop their academic abilities to the fullest from early childhood into postgraduate research. The principal funding sources for these programs come from federal grants, timber harvest taxes, and transfers from other funds.

**State of Oregon**  
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The State reports the following major proprietary (enterprise) funds:

The *Housing and Community Services Fund* accounts for activities to finance multi-family housing construction and home mortgages for low-income families and other programs such as the moderate-income elderly and disabled housing finance program, the single-family loan program, and the community development corporation program. Funding is from the issuance of bonds that are repaid from the interest and principal payments made on mortgages.

The *Veterans' Loan Fund* accounts for activities to finance owner-occupied, single-family residential housing for qualified eligible Oregon veterans. Funds for lending are provided through the issuance of general obligation bonds that are repaid from the interest and principal payments made on mortgages.

The *Lottery Operations Fund* accounts for the operation of the Oregon State Lottery. The primary objective of the State Lottery is to produce the maximum amount of net revenues to be used for K-12 education programs, furthering economic development, as well as restoring and protecting certain parks and natural resources.

The *Unemployment Compensation Fund* accounts for federal monies and unemployment taxes collected from employers to provide payment of benefits to the unemployed.

The *University System Fund* accounts for the operations of Oregon's seven public universities, including the Chancellor's Office. Funding is from General Fund appropriations, tuition and fees, and auxiliary enterprise revenues, in addition to funds from external donors and federal agencies.

Additionally, the State reports the following fund types:

The *Internal Service Funds* account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis. These include central services such as accounting, budgeting, personnel, mail, printing, copy center, data center, property development, telecommunications, motor pool, and an insurance fund. Legal, banking, and audit services are also accounted for in internal service funds.

The *Pension Trust Funds* account for activities of the Public Employees Retirement System, which administers resources for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the retirement system.

The *Private Purpose Trust Funds* account for all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments. Primarily, this includes the State's Common School Fund, which accounts for the principal and interest derived from the sale of timber, land, and property escheated to the State. Earnings in the Common School Fund must be used for educational purposes.

The *Investment Trust Fund* accounts for the portion of the Oregon Short-term Fund (OSTF) belonging to local governments. The OSTF is a cash and investment pool, managed by the State Treasurer, which is available for use by all funds and local governments. Oregon reports the State's portion of the pool within the funds of the State.

The *Agency Fund* accounts for assets held by the State as an agent for other governmental units, organizations, or individuals. For example, the Department of Consumer and Business Services holds deposits and investments to secure the faithful performance by insurers of insurance company obligations, including claims due to policyholders. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Only the Oregon Health and Science University, a discretely presented component unit of the State, applies private-sector guidance issued after November 30, 1989.

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Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The primary operating revenues for the State's enterprise funds and internal service funds include assessments, charges for services, sales revenue, and grants. The principal operating expenses for enterprise funds and internal service funds include salaries and wages, services and supplies, and special payments. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

***D. Deposits and Investments***

Deposits

Cash deposits not held in a cash management or investment pool are classified as cash and cash equivalents. Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents include: cash on hand, cash and investments held by the State Treasury in the Oregon Short-term Fund, and cash deposits of debt proceeds in investment funds held by a trustee.

Investments

Investments are reported at fair value with the following exceptions, which are reported using cost-based measures:

- Nonparticipating interest-earning investment contracts and certain investments not held for investment purposes.
- Investments in the Oregon Short-term Fund with remaining maturities of up to ninety days are carried at amortized cost, which approximates fair value. The State reports these investments as cash and cash equivalents on the balance sheet or statement of net assets but as investments in Note 2.

Changes in the fair value of investments are recognized as investment income (loss) in the current year.

The fair value of debt and equity securities is determined by the custodial agent, using recognized pricing services. Equity securities traded on a national or international exchange are valued at the last reported sales price. Debt securities are generally valued at the midpoint between the bid and ask prices. A small percentage of debt securities cannot be priced in this manner, and for these, a similar "benchmark" security is used. The benchmark has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar considering current market conditions. Investments in alternative equities representing publicly traded securities are stated at the quoted market price. Investments in alternative equities representing private securities are generally reported at cost unless a significant market event warrants an adjustment to cost. Mortgage loans on real estate and State agency loans are stated at the amortized unpaid principal balance. Fair values of investments in real estate are based upon valuations provided by investment managers and advisors retained by the Oregon State Treasury.

Derivatives

In accordance with State investment policies, the Oregon State Treasury invests either directly or through its outside investment managers on behalf of the State in contracts that have derivative characteristics. Derivatives are used to manage the overall risk of investment portfolios. The State does not hold or issue derivative financial instruments for trading purposes. All derivatives held by the State are reported at fair value.

***E. Receivables and Payables.*** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Trade and income tax receivables consist of revenues earned or accrued in the current period and are shown net of uncollectible amounts.

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**F. Interfund Transactions.** Interfund balances (due to/from other funds and advances to/from other funds) and interfund activity (transfers to/from other funds) within a major fund column in the fund financial statements have been eliminated.

**G. Inventories.** Inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. In governmental funds, inventories are recorded as expenditures when purchased. Reported inventories in governmental funds are equally offset by a reservation of fund balance since they are not available for appropriation. In proprietary funds, inventories are expended when consumed rather than when purchased. OHSU records inventories at the lower of cost or market, with the majority accounted for under the first-in-first-out method.

**H. Prepaid Items.** Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items in both government-wide and fund financial statements. In governmental funds, prepaid items are accounted for using the consumption method and a portion of fund balance equal to the prepaid items has been reserved to indicate that it is not available for appropriation.

**I. Restricted Assets.** Certain proceeds of the State's bond and certificate of participation (COP) issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet or statement of net assets because these resources are segregated and their use is limited by applicable bond covenants or COP financing agreements. Generally, this includes cash and investments set aside for current and future debt service payments.

**J. Foreclosed and Deeded Properties.** Properties acquired through foreclosure proceedings or by acceptance of deeds in lieu of foreclosure are recorded at the lower of cost or fair market value.

**K. Receivership Assets.** Net assets of insurance companies that have been placed into receivership under the control of the Department of Consumer and Business Services in accordance with Oregon Revised Statutes are recorded as receivership assets.

**L. Capital Assets.** Capital assets, which include property, equipment, and infrastructure assets (i.e., highways, tunnels, bridges, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the State as assets with an initial cost of \$5,000 or more and an estimated useful life of at least one year. Such assets, when purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of assets or significantly extend assets lives are expensed rather than capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Significant interest expense incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as its component units, are depreciated over their estimated useful lives using the straight-line method, unless they are considered inexhaustible. Useful lives for buildings and related assets range from 5 to 100 years while useful lives of equipment and machinery range from 2 to 99 years. For infrastructure assets, useful lives range from 5 to 99 years. Useful lives for works of art and historical treasures range from 1 to 99 years.

**M. Compensated Absences.** Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the State does not pay any amounts when employees separate from State service. A liability for vacation leave (compensated absences) is accrued when incurred in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for compensated absences is reported in governmental funds only if the liabilities have matured, for example, as a result of employee resignations and retirements.

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**N. Long-term Obligations.** In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities for governmental activities or business-type activities, as applicable. In proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the balance sheet. Bond or certificate of participation (COP) premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the debt using the effective interest method or the bonds outstanding method. Bonds/COP payable is reported net of the applicable bond/COP premium or discount. Bond/COP issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond/COP premiums and discounts, as well as bond/COP issuance costs, in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issues are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**O. Fund Equity.** In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. No portion of the unreserved fund balance in the accompanying financial statements has been designated.

In the government-wide statement of net assets and the proprietary fund balance sheet, fund equity (referred to as *net assets*) is reported in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Restricted net assets result from restrictions imposed on a portion of net assets by law through constitutional provisions or enabling legislation or by parties outside the State, such as creditors, grantors, contributors, or laws or regulations of other governments.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available for use, it is the discretion of the individual state agencies whether to use restricted resources first, then unrestricted resources as they are needed, or to use unrestricted resources first, then restricted resources.

## **2. DEPOSITS AND INVESTMENTS**

The State's investment policies are governed by statute and the Oregon Investment Council (Council). The State Treasurer (Treasurer) is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with Oregon statutes, the investment funds are invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill and caution. While the Treasurer is authorized to use demand deposit accounts and fixed-income investments, equity investment transactions must be directed by external investment managers that are under contract with the Council. Further, equity investments are limited to not more than 50 percent of the monies contributed to the Oregon Public Employees Retirement Fund (OPERF), Industrial Accident Fund (SAIF Corporation), and not more than 65 percent of the Common School Fund within the Division of State Lands. The Deferred Compensation Fund, the Education Stability Fund, and the State Board of Higher Education may also invest in equities.

The Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. Oregon reports the State's portion of the pool within the funds of the State. The portion of the pool belonging to local governments is reported in the investment trust fund. Because the pool operates as a demand deposit account, each fund's portion of this pool is classified on the financial statements as cash and cash equivalents. However, OSTF investments are disclosed in B below and classified by custodial credit risk for investments.

The Treasurer also makes short-term and long-term investments, which are held separately by several of the State's funds. Other investments are made directly by state agencies rather than by the Treasurer, although only a few agencies are authorized to make such investments and then only for specific programs. The State Treasury's direct investments in short-term securities are limited by portfolio rules established by the Oregon Short-Term Fund Board and the Council.

A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report can be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896 or from their website at <http://www.ost.state.or.us/About/Boards/OSTF/Financial%20Statements/index.htm>.

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Participants' account balances in the OSTF are determined by the amount of participants' deposits, adjusted for withdrawals and distributed interest. Interest is calculated and accrued daily on each participant's account based on the ending account balance and a variable interest rate determined periodically by the Oregon State Treasury. The interest rate approximates the actual yield of the OSTF exclusive of unrealized gains and losses.

The following schedule reconciles the carrying amounts in this disclosure to balances reported in the Government-wide Statement of Net Assets and the Fiduciary Funds Statement of Fiduciary Net Assets (in thousands):

	<b>Cash and Cash Equivalents</b>	<b>Investments</b>	<b>Cash and Securities Held in Trust</b>	<b>Securities Lending Assets</b>
Carrying Amount:				
Deposits - Primary Government	\$ 2,835,772	\$ -	\$ -	\$ -
Deposits - Discretely Presented				
Component Units	411,101	-	-	-
Investments - Primary Government	-	51,028,192	-	-
Investments - Discretely Presented				
Component Units	-	3,182,017	-	-
<b>Subtotal</b>	<b>3,246,873</b>	<b>54,210,209</b>	<b>-</b>	<b>-</b>
Cash Equivalents in Oregon Short -Term Fund (OSTF)	7,369,427	(7,369,427)	-	-
Amounts Held in Trust	(21,930)	(1,424,383)	1,446,313	-
Securities Lending:				
Cash and Reinvested Cash Collateral - Primary Government	-	(3,087,671)	-	3,085,133
Cash and Reinvested Cash Collateral - Component Units	-	(152,198)	-	151,132
<b>Totals</b>	<b>\$ 10,594,370</b>	<b>\$ 42,176,530</b>	<b>\$ 1,446,313</b>	<b>\$ 3,236,265</b>

**A. Deposits.** There are three categories of custodial credit risk that apply to deposits of both the State's primary government and its discretely presented component units:

1. Insured or collateralized with securities held by the State or by its agent in the State's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the State's name.
3. Uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the State's name.

Deposit balances held in each category are as follows (in thousands):

	<b>Category</b>			<b>Total Bank Balance</b>	<b>Carrying Amount</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
Primary Government	\$ 73,969	\$ 3,505	\$2,438,761	\$2,516,235	\$1,750,854
Discretely Presented Component Units	20,456	-	362,396	382,852	411,101
U.S. Treasury Deposits	-	-	-	-	1,084,918
<b>Totals</b>	<b>\$ 94,425</b>	<b>\$ 3,505</b>	<b>\$2,801,157</b>	<b>\$2,899,087</b>	<b>\$3,246,873</b>

Approximately \$1.8 billion under the third risk category is OPERF Investment Managers' deposits in custodian banks. Another \$17.2 million under the third risk category is deposited with bond trustees who assume responsibility for those funds. U.S. Treasury deposits consist of unemployment compensation trust funds held in the Federal Reserve Bank and backed by the full faith and credit of the U.S. Government. Approximately \$21.9 million of the carrying amount of the cash and cash equivalents shown above is reported as cash and securities held in trust.

**State of Oregon**  
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**B. Investments.** There are three categories of custodial credit risk that apply to investments of both the State's primary government and its discretely presented component units:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the State's name.

Investment balances held by the primary government in each category are as follows (in thousands):

Investments – Categorized	Category			Reported Amount	Fair Value
	1	2	3		
Investments not on Securities Loan:					
U.S. Government and Agency Securities	\$ 8,189,372	\$ -	\$ 21,008	\$ 8,210,380	\$ 8,210,380
Domestic Equity Securities	4,450,173	-	491,515	4,941,688	4,941,688
International Equity Securities	3,343,654	-	-	3,343,654	3,343,654
Commercial Paper	2,299,179	-	-	2,299,179	2,299,179
Corporate Bonds	2,944,923	-	320	2,945,243	2,945,243
Municipal Bonds	456,049	-	265	456,314	456,314
International Bonds	907,028	-	-	907,028	907,028
Asset-Backed Securities	1,947,802	-	-	1,947,802	1,947,802
Repurchase Agreements	131,321	-	-	131,321	131,321
Other	9,930	-	531	10,461	10,461
Investments on Securities Loan for Securities and Tri-Party Agreement Collateral:					
Domestic Equity Securities	7,881	-	-	7,881	7,881
International Equity Securities	49,747	-	-	49,747	49,747
International Bonds	69,548	-	-	69,548	69,548
<b>Subtotal</b>	<b>\$24,806,607</b>	<b>\$ -</b>	<b>\$ 513,639</b>	<b>25,320,246</b>	<b>25,320,246</b>
<b>Investments – Not Categorized</b>					
U.S. Government and Agency Securities				50,000	50,000
Commercial Paper				199,993	199,993
Investments Held by Broker-Dealers Under Securities Loan with Cash Collateral:					
U.S. Government and Agency Securities				1,593,633	1,593,633
Domestic Equity Securities				572,690	572,690
International Equity Securities				516,824	516,824
Corporate Bonds				241,646	241,646
International Bonds				67,111	67,111
Asset-backed securities				120	120
Securities Lending Short-Term Collateral Investment Pool				3,087,671	3,087,671
Mutual Funds				13,510,860	13,510,860
Alternative Equities				4,016,962	4,016,962
Real Estate and Real Estate Mortgages				1,734,136	1,734,136
Guaranteed Investment Contracts				110,110	110,110
Annuity Contracts				5,326	5,326
Other				864	864
<b>Total Investments</b>				<b>\$51,028,192</b>	<b>\$51,028,192</b>

**State of Oregon**  
**Notes to the Financial Statements**

Investment balances held by OHSU as of June 30, 2003, and by SAIF Corporation as of December 31, 2002, in each category are as follows (in thousands):

Investments – Categorized	Category			Reported Amount	Fair Value
	1	2	3		
Investments not on Securities Loan:					
U.S. Government and Agency Securities	\$ 429,239	\$ -	\$ -	\$ 429,239	\$ 429,239
Domestic Equity Securities	209,129	-	-	209,129	209,129
Commercial Paper	71,330	-	-	71,330	71,330
Corporate Bonds	1,004,296	-	-	1,004,296	1,004,296
Municipal Bonds	21,380	-	-	21,380	21,380
International Bonds	105,166	-	-	105,166	105,166
Asset-Backed Securities	676,739	-	-	676,739	676,739
Other	48,475	-	-	48,475	48,475
Subtotal	\$ 2,565,754	\$ -	\$ -	2,565,754	2,565,754
Investments – Not Categorized					
Investments Held by Broker-Dealers Under Securities Loan with Cash Collateral:					
U.S. Government and Agency Securities				94,069	94,069
Domestic Equity Securities				227	227
Corporate Bonds				39,469	39,469
International Bonds				12,286	12,286
Securities Lending Short-Term Collateral Investment Pool				152,198	152,198
Mutual Funds				306,837	306,837
Real Estate and Real Estate Mortgages				1,093	1,093
Other				10,084	10,084
Total Investments				\$3,182,017	\$3,182,017

**Repurchase Agreements and Reverse Repurchase Agreements.** During the fiscal year, one OPERF external manager invested in overnight repurchase agreements. These investments were limited to the month of May 2003, and OPERF held no repurchase agreements as of June 30, 2003. Investments in repurchase agreements made with cash collateral from securities lending transactions had the following fair values at June 30, 2003:

- \$124 million, or 10.4% of the Oregon Short-Term Investment Fund, the cash collateral pool for all agencies except PERS.
- \$34 million, or 1.7% of PERS' share of the collective investment pool, the cash collateral pool in which PERS is a participant along with other qualified pension plans.

No losses were incurred and there were no violations of legal, regulatory, or contractual provisions of repurchase agreements. No reverse repurchase agreements were made during the year.

**C. Securities Lending.** The State participates in securities lending transactions in accordance with State investment policies. The Oregon State Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement. There were no significant violations of the provisions of securities lending agreements.

During the year, State Street lent U.S. Government and agency securities, domestic fixed income and equity securities, and international fixed income and equity securities, and received as collateral U.S. dollar-denominated cash, U.S. Government and agency securities, and foreign sovereign debt securities of the Organization of Economic Cooperation Development countries. Borrowers were required to deliver collateral for each loan equal to at least 102% of the fair value of the loaned security, or 105% in the case of international securities. Loans are marked to market daily. If the market value of collateral falls below 102% or 105% of the fair value of the loaned security, the lender may demand from the borrower sufficient collateral to raise the market value to 102% or 105%. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 102% or 105%. The State did not impose any restrictions during the fiscal year on the amount of the loans State Street made on its behalf. The State did not have the ability to pledge or sell collateral securities absent a borrower default, but was fully indemnified by State Street against such losses.



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During the year, the State and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on loans from OPERF was invested together with cash collateral of other qualified tax-exempt plan lenders in a collective investment pool (Pool). The cash collateral received on loans from State entities other than OPERF was invested in the Oregon Short-Term Investment Fund (Fund) maintained by State Street. Because loans were terminable at will by either party, their duration did not generally match the duration of investments made with cash collateral in either the Pool or the Fund. For the primary government, the fair value of securities on loan as of June 30, 2003, was \$3.1 billion and the collateral held on the same date was \$3.2 billion. As of December 31, 2002, the fair value of securities on loan and collateral held for SAIF Corporation was \$146.1 million and \$151.1 million respectively. The State had no credit risk exposure to borrowers related to securities on loan.

Securities lent at year end for cash collateral are presented as not categorized in the preceding schedule of custodial credit risk. Cash collateral invested in the short-term investment fund maintained by State Street is presented as not categorized in the schedule of custodial credit risk. Securities lent for securities collateral are classified according to the category of the collateral received.

**D. Restricted Assets.** Included in deposits and investments are amounts which are committed for specific purposes, including loan acquisitions, payment of debt service, lottery prizes, and deferred compensation. At June 30, 2003, the primary government had restricted assets of \$1.3 billion in deposits and \$1.2 billion in investments. The discretely presented component units had restricted assets of \$539.5 million in investments.

### 3. RECEIVABLES AND PAYABLES

**A. Receivables.** The following tables disaggregate receivable balances reported in the fund financial statements as Accounts and Interest Receivable (net) and Net Contracts, Notes, and Other Receivables. Contracts, Notes, and Other Receivables are not expected to be collected within one year of the date of the financial statements.

Receivables reported for governmental activities at June 30, 2003, were as follows (in thousands):

	General	Health & Social Services	Public Transportation	Environmental Management	Educational Support	Other	Internal Service	Total
<b>Governmental activities:</b>								
General accounts	\$ 15,890	\$ 20,496	\$ 10,385	\$ 50,714	\$ 120	\$ 59,470	\$ 72,910	\$ 229,985
Due from federal government	-	108,578	56,542	20,233	23,328	68,288	-	276,969
Interest	-	-	149	2,177	-	7,871	1,067	11,264
Contracts	-	-	1,707	1,740	-	1,476	-	4,923
Mortgages	-	4,382	-	-	-	-	-	4,382
Other	41,050	190,611	4,485	4,927	34	368,104	58	609,269
Gross receivables	56,940	324,067	73,268	79,791	23,482	505,209	74,035	1,136,792
Allowance for uncollectibles	(22,322)	(96,010)	(2,343)	(2,965)	(1)	(148,897)	(969)	(273,507)
Total receivables, net	\$ 34,618	\$ 228,057	\$ 70,925	\$ 76,826	\$ 23,481	\$ 356,312	\$ 73,066	\$ 863,285

Receivables reported for business-type activities at June 30, 2003, were as follows (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
<b>Business-type activities:</b>							
General accounts	\$ 17	\$ 6,287	\$ 27,259	\$ 177,695	\$ 59,320	\$6,015	\$ 276,593
Interest	7,268	8,587	-	17,944	-	9,061	42,860
Notes	-	-	-	-	136,731	-	136,731
Contracts	-	-	-	-	38,064	-	38,064
Other	-	-	-	14,179	5,792	6	19,977
Gross receivables	7,285	14,874	27,259	209,818	239,907	15,082	514,225
Allowance for uncollectibles	-	-	(540)	(12,321)	(9,971)	(46)	(22,878)
Total receivables, net	\$ 7,285	\$ 14,874	\$ 26,719	\$ 197,497	\$ 229,936	\$15,036	\$ 491,347

**State of Oregon**  
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Receivables reported for fiduciary funds at June 30, 2003, were as follows (in thousands):

	Private Purpose Trust	Agency
<b>Fiduciary fund activities:</b>		
General accounts	\$ 582	\$ 5,161
Due from federal government	161	-
Notes	-	-
Contracts	141	-
Other	227	134,194
Gross receivables	1,111	139,355
Allowance for uncollectibles	-	-
Total receivables, net	<u>\$ 1,111</u>	<u>\$139,355</u>

Receivables reported for the SAIF Corporation (SAIF) at December 31, 2002, and the Oregon Health and Science University (OHSU) at June 30, 2003, were as follows (in thousands):

	SAIF	OHSU	Total
<b>Discretely presented component units:</b>			
Patient accounts	\$ -	\$ 177,966	\$ 177,966
Premiums	118,234	-	118,234
Interest	19,157	2,331	21,488
Student loans	-	20,786	20,786
Pledges and estates	-	31,535	31,535
Contracts	-	1,552	1,552
Broker receivable – investment sales	30,072	-	30,072
Other	14,034	22,944	36,978
Gross receivables	181,497	257,114	438,611
Allowance for uncollectibles	(2,289)	(90,403)	(92,692)
Total receivables, net	<u>\$ 179,208</u>	<u>\$ 166,711</u>	<u>\$ 345,919</u>

**B. Payables.** The following tables disaggregate payables reported in the fund financial statements as Accounts and Interest Payable and Net Contracts, Mortgages and Notes Payable.

Payables reported for governmental activities at June 30, 2003, were as follows (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Educational Support	Other	Internal Service	Total
<b>Governmental activities:</b>								
General accounts	\$ 117,283	\$ 113,922	\$ 107,489	\$ 26,617	\$15,764	\$ 76,268	\$ 18,041	\$ 475,384
Interest	4	-	-	-	-	23	960	987
Taxes	4	-	-	-	-	-	-	4
Contracts	-	-	-	-	-	-	356	356
Loans	-	-	-	-	-	-	427	427
Total payables	<u>\$ 117,291</u>	<u>\$ 113,922</u>	<u>\$ 107,489</u>	<u>\$ 26,617</u>	<u>\$15,764</u>	<u>\$ 76,291</u>	<u>\$ 19,784</u>	<u>\$ 477,158</u>

Payables reported for business-type activities at June 30, 2003, were as follows (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
<b>Business-type activities:</b>							
General accounts	\$ 980	\$ 17,547	\$ 31,446	\$ 6,754	\$ 57,717	\$ 15,795	\$ 130,239
Interest	35,221	-	-	-	7,099	5,029	47,349
Loans	3,891	-	-	-	-	-	3,891
Notes	-	-	-	-	2,612	-	2,612
Total payables	<u>\$ 40,092</u>	<u>\$ 17,547</u>	<u>\$ 31,446</u>	<u>\$ 6,754</u>	<u>\$ 67,428</u>	<u>\$ 20,824</u>	<u>\$ 184,091</u>

**State of Oregon**  
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Payables reported for fiduciary funds at June 30, 2003, were as follows (in thousands):

	Pension Trust	Private Purpose Trust	Investment Trust	Agency
<b>Fiduciary fund activities:</b>				
General accounts	\$ 47,888	\$ 6,033	\$ 3	\$ 7
Broker payable for investment purchases	2,455,889	37,593	112,261	-
Mortgages	-	959	-	-
Total payables	<u>\$ 2,503,777</u>	<u>\$ 44,585</u>	<u>\$ 112,264</u>	<u>\$ 7</u>

Payables reported for the SAIF Corporation (SAIF) at December 31, 2002, and the Oregon Health and Science University (OHSU) at June 30, 2003, were as follows (in thousands):

	SAIF	OHSU	Total
<b>Discretely presented component units:</b>			
General accounts	\$ 13,348	\$ 108,659	\$ 122,007
Contracts	-	61,345	61,345
Reinsurance	1,939	-	1,939
Broker payable for investment purchases	35,876	-	35,876
Premium taxes	11,986	-	11,986
Total payables	<u>\$ 63,149</u>	<u>\$ 170,004</u>	<u>\$ 233,153</u>

#### 4. JOINT VENTURE

The Multi-State Lottery Association (MUSL) was established in 1987 by a joint venture agreement. MUSL members include: the Arizona Lottery, California Lottery, Connecticut Lottery Corporation, Colorado Lottery, District of Columbia Lottery and Charitable Games Control Board, Delaware State Lottery, Hoosier Lottery, Idaho Lottery, Iowa Lottery, Kansas Lottery, Kentucky Lottery Corporation, Louisiana Lottery Corporation, Minnesota State Lottery, Missouri Lottery, Montana Lottery, Nebraska Lottery, New Hampshire Sweepstakes Commission, New Mexico Lottery Authority, Oregon Lottery, Pennsylvania Lottery, Rhode Island Lottery, South Carolina Education Lottery, South Dakota Lottery, Vermont Lottery, Virgin Islands Lottery, West Virginia Lottery, and the Wisconsin Lottery.

MUSL is governed by a Board of Directors, on which each member lottery is represented. The Board's responsibilities to administer multi-state lottery games are performed by a Product Group, advisory committees, or panels staffed by officers and independent contractors as appointed by the Board. Each member lottery pays an allocated share of MUSL's operating expenses. The Oregon Lottery's share of MUSL's operating expenses for the fiscal year ended June 30, 2003 was \$188,298.

The Board and Product Group determine a percentage of gross MUSL game sales that are aggregated in a common prize pool. The revenues derived by each member lottery, that are not allocated to the common prize pool and MUSL's operating expenses, will be the revenue of that member lottery. Upon termination of the MUSL's existence, if such termination should occur, the member lottery would receive any proceeds determined available for distribution by the Board. Long-term liabilities of MUSL are limited to lottery prize annuities due, which are fully funded through investments in U.S. Government Securities. As of June 30, 2003, the Oregon Lottery had \$3.1 million on deposit with the MUSL for payment of the Oregon Lottery's share of MUSL's prize reserve and annual operating expenses.

Complete separate financial statements for MUSL may be obtained from the Multi-State Lottery Association, Attention: Chuck Strutt, 1701 48th Street, Suite 210, West Des Moines, Iowa 50266-6723.

**State of Oregon**  
**Notes to the Financial Statements**

## 5. CAPITAL ASSETS

### A. Primary Government.

**Capital Asset Activity.** Capital asset activity for the primary government for the year ended June 30, 2003, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,515,039	\$ 31,736	\$ 1,013	\$ 1,545,762
Construction in Progress	404,474	285,330	42,457	647,347
Works of Art and Historical Treasures	454	156	-	610
Total capital assets not being depreciated	<u>1,919,967</u>	<u>317,222</u>	<u>43,470</u>	<u>2,193,719</u>
<i>Capital assets being depreciated:</i>				
Buildings, Property, and Equipment	1,900,785	123,666	70,683	1,953,768
Infrastructure	13,650,900	121,231	16,242	13,755,889
Total capital assets being depreciated	<u>15,551,685</u>	<u>244,897</u>	<u>86,925</u>	<u>15,709,657</u>
Less accumulated depreciation for:				
Buildings, Property, and Equipment	746,278	39,352	65,768	719,862
Infrastructure	5,965,912	578,998	15,269	6,529,641
Total accumulated depreciation	<u>6,712,190</u>	<u>618,350</u>	<u>81,037</u>	<u>7,249,503</u>
Total capital assets being depreciated, net	<u>8,839,495</u>	<u>(373,453)</u>	<u>5,888</u>	<u>8,460,154</u>
Governmental activities capital assets, net	<u>\$ 10,759,462</u>	<u>\$ (56,231)</u>	<u>\$ 49,358</u>	<u>\$ 10,653,873</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 135,987	\$ 685	\$ 86,864	\$ 49,808
Construction in Progress	133,808	118,939	16,671	236,076
Works of Art and Historical Treasures	57,989	1,335	317	59,007
Total capital assets not being depreciated	<u>327,784</u>	<u>120,959</u>	<u>103,852</u>	<u>344,891</u>
<i>Capital assets being depreciated:</i>				
Buildings, Property, and Equipment	1,702,428	80,946	14,277	1,769,097
Infrastructure	30,899	2,557	257	33,199
Total capital assets being depreciated	<u>1,733,327</u>	<u>83,503</u>	<u>14,534</u>	<u>1,802,296</u>
Less accumulated depreciation for:				
Buildings, Property, and Equipment	1,111,831	67,979	224,887	954,923
Infrastructure	26,264	1,390	3,385	24,269
Total accumulated depreciation	<u>1,138,095</u>	<u>69,369</u>	<u>228,272</u>	<u>979,192</u>
Total capital assets being depreciated, net	<u>595,232</u>	<u>14,134</u>	<u>(213,738)</u>	<u>823,104</u>
Business-type activities capital assets, net	<u>\$ 923,016</u>	<u>\$ 135,093</u>	<u>\$ (109,886)</u>	<u>\$ 1,167,995</u>

**State of Oregon**  
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	Beginning Balance	Increases	Decreases	Ending Balance
<b>Fiduciary fund activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,625	\$ 14	\$ -	\$ 1,639
Works of Art and Historical Treasures	25	-	-	25
Total capital assets not being depreciated	<u>1,650</u>	<u>14</u>	<u>-</u>	<u>1,664</u>
<i>Capital assets being depreciated:</i>				
Buildings, Property, and Equipment	10,297	957	13	11,241
Infrastructure	9,226	-	-	9,226
Total capital assets being depreciated	<u>19,523</u>	<u>957</u>	<u>13</u>	<u>20,467</u>
Less accumulated depreciation for:				
Buildings, Property, and Equipment	3,306	480	-	3,786
Infrastructure	5,972	439	-	6,411
Total accumulated depreciation	<u>9,278</u>	<u>919</u>	<u>-</u>	<u>10,197</u>
Total capital assets being depreciated, net	<u>10,245</u>	<u>38</u>	<u>13</u>	<u>10,270</u>
Fiduciary fund activities capital assets, net	<u>\$ 11,895</u>	<u>\$ 52</u>	<u>\$ 13</u>	<u>\$ 11,934</u>

**Depreciation Expense.** Depreciation expense was charged to functions of the primary government as follows (in thousands):

**Governmental activities:**

Education	\$ 531
Human Resources	1,811
Public Safety	24,055
Economic and Community Development	597
Natural Resources	11,139
Transportation	593,658
Consumer and Business Services	686
Administration	3,812
Legislative	826
Judicial	851
Total depreciation expense – governmental activities	<u>\$ 637,966</u>

**Business-type activities:**

Housing and Community Services	\$ 104
Veterans' Loan	431
Lottery Operations	5,124
University System	63,484
Other Business-type Activities	2,697
Total depreciation expense – business-type activities	<u>\$ 71,840</u>

**Fiduciary fund activities:**

Common School Fund	\$ 564
Pension Trust	356
Total depreciation expense – fiduciary activities	<u>\$ 920</u>

**State of Oregon**  
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**Construction Commitments.** The State has active construction projects as of June 30, 2003, which will be funded either through federal grants, lottery resources, or other funding sources as noted in the schedule below. There are no construction commitments that will be funded through general fund appropriations. At year end, the State's construction commitments with contractors are as follows (in thousands):

<u>Project</u>	<u>Spent-to- Date</u>	<u>Remaining Commitment Source of Funds</u>			
		<u>Remaining Commitment</u>	<u>Federal</u>	<u>Lottery</u>	<u>Other</u>
North mall office complex	\$ 18,045	\$ 1,052	\$ -	\$ -	\$ 1,052
Emergency coordination facility	21,175	94	93	-	1
Public safety training facility	3,210	5,756	-	-	5,756
Military facilities	3,957	5,186	4,911	-	275
Forestry headquarters buildings	19,148	14,845	251	-	14,594
State Fair facilities	10,919	9,094	-	9,094	-
University building construction and upgrades	29,977	2,849	-	-	2,849
Road and bridge construction	446,856	447,500	241,500	-	206,000
Upgrade and maintenance of various state facilities	22,080	4,867	468	-	4,399
Total	<u>\$ 575,367</u>	<u>\$ 491,243</u>	<u>\$247,223</u>	<u>\$ 9,094</u>	<u>\$ 234,926</u>

**Collections Not Capitalized.** Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets include highway maintenance equipment displayed at various district and regional offices, printing equipment displayed at the Salem Print Plant, a museum of military artifacts at Camp Withycombe in Clackamas, Oregon, and a collection of art work portraying various Oregon locals displayed at the Oregon Liquor Control Commission headquarters. They have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are:

1. The collections are held for public exhibition or education in the furtherance of public service, not held for financial gain;
2. The collections are protected, kept unencumbered, cared for, and preserved; and
3. The collections are subject to state agency policy that requires the proceeds from sales of collection items to be used to acquire other items for the collections.

**B. Discretely Presented Component Units.**

Activity for SAIF Corporation for the year ended December 31, 2002, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,922	\$ -	\$ -	\$ 2,922
Total capital assets not being depreciated	<u>2,922</u>	<u>-</u>	<u>-</u>	<u>2,922</u>
<i>Capital assets being depreciated:</i>				
Buildings, Property, and Equipment	50,805	1,870	4,160	48,515
Total capital assets being depreciated	<u>50,805</u>	<u>1,870</u>	<u>4,160</u>	<u>48,515</u>
Less accumulated depreciation for:				
Buildings, Property, and Equipment	26,521	3,505	3,774	26,252
Total accumulated depreciation	<u>26,521</u>	<u>3,505</u>	<u>3,774</u>	<u>26,252</u>
Total capital assets being depreciated, net	<u>24,284</u>	<u>(1,635)</u>	<u>386</u>	<u>22,263</u>
SAIF Corporation capital assets, net	<u>\$ 27,206</u>	<u>\$ (1,635)</u>	<u>\$ 386</u>	<u>\$ 25,185</u>

**State of Oregon**  
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Activity for the Oregon Health and Science University (OHSU) for the year ended June 30, 2003, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 8,289	\$ 7,075	\$ -	\$ 15,364
Construction in Progress	23,988	48,114	42,125	29,977
Total capital assets not being depreciated	<u>32,277</u>	<u>55,189</u>	<u>42,125</u>	<u>45,341</u>
<i>Capital assets being depreciated:</i>				
Buildings, Property, and Equipment	1,084,905	140,819	134,107	1,091,617
Total capital assets being depreciated	<u>1,084,905</u>	<u>140,819</u>	<u>134,107</u>	<u>1,091,617</u>
Less accumulated depreciation for:				
Buildings, Property, and Equipment	453,830	67,148	65,693	455,285
Total accumulated depreciation	<u>453,830</u>	<u>67,148</u>	<u>65,693</u>	<u>455,285</u>
Total capital assets being depreciated, net	<u>631,075</u>	<u>73,671</u>	<u>68,414</u>	<u>636,332</u>
OHSU capital assets, net	<u>\$ 663,352</u>	<u>\$ 128,860</u>	<u>\$ 110,539</u>	<u>\$ 681,673</u>

## 6. LEASES

**A. Operating Leases.** Operating leases are rental agreements where the payments are chargeable as rent and recorded as services and supplies expenditures. Should the Legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses that provide for cancellation of the lease as of the end of a fiscal year. Lease obligations decrease each year because of lease expirations. It is expected these leases will be replaced with leases that have higher rental rates due to inflation. Rental costs for such leases for the year ended June 30, 2003, for the primary government, were \$75.0 million and for the component units were \$7.1 million.

The following schedule summarizes the future minimum lease payments as of June 30, 2003 (in thousands):

<u>Year Ending June 30.</u>	<u>Primary Government</u>	<u>Component Units</u>
2004	\$ 64,209	\$ 6,851
2005	57,081	6,192
2006	47,072	4,668
2007	36,967	4,370
2008	29,431	2,863
2009-2013	68,052	7,488
2014-2018	12,049	87
2019-2023	334	-
2024-2028	33	-
2029-2033	33	-
2034-2038	33	-
2039-2043	33	-
2044-2048	27	-
Total future minimum lease payments	<u>\$ 315,354</u>	<u>\$ 32,519</u>

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**B. Capital Leases.** Capital leases are treated similar to purchases on contract. The property is capitalized at the present value when the lease is incurred and a corresponding liability is recorded. The liability for capital leases of property is included in the accompanying financial statements. Should the Legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses that provide for cancellation of the lease as of the end of a fiscal year.

The assets acquired through capital leases are as follows (in thousands):

<u>Asset Class</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Buildings, Property, and Equipment	\$ 113	\$ 1,792
Less: Accumulated Depreciation	(6)	(1,021)
Total	<u>\$ 107</u>	<u>\$ 771</u>

The following schedule summarizes the future minimum lease payments and net present value of these minimum lease payments as of June 30, 2003 (in thousands):

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
2004	\$ 33	\$ 394	\$ 1,045
2005	32	249	999
2006	8	232	999
2007	6	108	998
2008	-	3	998
2009-2013	-	4	2,445
Total future minimum lease payments	79	990	7,484
Less amounts representing interest	-	(93)	(2,252)
Present value of minimum lease payments	<u>\$ 79</u>	<u>\$ 897</u>	<u>\$ 5,232</u>



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**C. Lease Receivables.** The State of Oregon receives income from operating leases on land, property, and equipment that is leased to non-state entities. Rental income received was \$4.4 million for the year ended June 30, 2003 on assets valued at over \$24.3 million, net of \$6.9 million in accumulated depreciation. Minimum future lease revenue for non-cancelable operating leases at June 30, 2003 were (in thousands):

<u>Year Ending June 30,</u>	<u>Primary Government</u>
2004	\$ 4,090
2005	2,579
2006	2,071
2007	996
2008	635
2009-2013	1,432
2014-2018	853
2019-2023	365
2024-2028	330
2029-2033	330
2034-2038	330
2039-2043	330
2044-2048	308
2049-2053	302
2054-2058	302
2059-2063	302
2064-2068	303
2069-2073	302
2074-2078	302
2079-2083	302
2084-2088	303
2089-2093	123
Total future minimum lease revenue	<u>\$ 17,190</u>

## **7. DONOR-RESTRICTED ENDOWMENTS**

### Oregon University System

Oregon Revised Statute 351.130 provides the Oregon University System (OUS) with the authority to use interest income, dividends, or profits of endowments specifically for the higher education institution receiving the gift. Any donee restrictions must also be abided. Current OUS Board policy is to annually distribute, for spending purposes, 4.0 percent of the five-year moving average of the market value of the endowment fund and to maintain the purchasing power of the funds as nearly as prudent investment permits. For the year ended June 30, 2003, the net amount of appreciation available for authorization for expenditure was \$12.0 million. The amount of net appreciation is reported in the University System Fund either as part of nonexpendable net assets restricted for donor purposes, or as part of expendable net assets restricted for donor purposes, depending on the terms of the donation.

### Oregon Health and Science University

Oregon Revised Statutes 128.320, 128.325, and 128.340 provide the Oregon Health and Science University (OHSU) with the authority to use the net appreciation of restricted endowments as established by the donee. Current OHSU Board policy is to allow distributions of 5.0 percent of the three-year moving average of the market value of the endowment pool. For the year ended June 30, 2003, the net amount of appreciation available for authorization for expenditure was \$40.6 million. The amount of net appreciation is reported as part of expendable net assets restricted for education.

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## 8. SHORT-TERM DEBT

During the year, the State repaid the tax anticipation notes that were issued in the prior year to manage the temporary cash flow deficits that resulted when the timing of required expenditures did not coincide with the timing of the collection of taxes and other revenues. The proceeds were deposited to the general fund and were used to pay authorized expenditures of the 2001-2003 biennium.

Oregon Department of Forestry (Forestry) used a line of credit to manage the cash needs of the Emergency Fire Program during the peak fire season. The \$10.0 million line of credit was obtained from the Oregon State Treasury and had an interest rate of 2.4 percent.

OHSU has a revolving credit agreement with Wells Fargo Bank which may be renewed annually. The line of credit is \$25 million and has a variable interest rate. All of the funds borrowed during the year were used for general operations.

Short-term debt activity for the year ended June 30, 2003, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Repaid</u>	<u>Ending Balance</u>
<b><i>Governmental activities:</i></b>				
Tax anticipation notes	\$788,361	\$ -	\$788,361	\$ -
Forestry line of credit	-	10,000	10,000	-
Total governmental activities	<u>788,361</u>	<u>10,000</u>	<u>798,361</u>	<u>-</u>
<b><i>Discretely presented component units:</i></b>				
OHSU line of credit	<u>9,800</u>	<u>103,464</u>	<u>113,264</u>	<u>-</u>
Total short-term debt activity	<u>\$798,161</u>	<u>\$ 113,464</u>	<u>\$911,625</u>	<u>\$ -</u>

## 9. LONG-TERM LIABILITIES

**A. General Obligation Bonds.** The State issues general obligation bonds to provide funds for a variety of projects as authorized by the Oregon Constitution. General obligation bonds are secured by a pledge of the full faith, credit, and taxing power of the State.

Specific provisions of the Oregon Constitution authorize general obligation debt to be issued for governmental activities. Article XI-G provides authorization to finance buildings and projects for community colleges. Debt service requirements for community colleges are financed through an appropriation from the General Fund. Obligations issued for highway construction pursuant to article XI, section 7, are fully self-supporting. Article XI-H authorizes the financing of pollution abatement and control facilities as well as pollution control and disposal activities. Facilities acquired under the pollution control program are required to conservatively appear to be at least 70 percent self-supporting and self-liquidating from revenues, gifts, federal grants, assessments, user charges, and other fees. Article XI-L provides authorization to finance capital costs of the Oregon Health and Science University.

The Oregon Constitution also authorizes general obligation debt to be used for business-type activities. Article XI-A authorized the creation of the Oregon War Veterans' Fund to finance farm and home loans for eligible veterans. Financing of multi-family housing for elderly and disabled persons is authorized in article XI-I (2). Article XI-J provides authorization to finance loans for the development of small-scale local energy projects. Issuance of general obligation bonds to finance higher education building projects is authorized in article XI-F (1). The preceding bonds of business-type activities are fully self-supporting. Article XI-G authorizes financing of higher education facilities and institution activities. Debt service requirements for these higher education obligations are financed through an appropriation from the General Fund. Financing of loans for water development projects is authorized in article XI-I (1). Certain provisions of the Water Resources general obligation bond indenture conflict with State statutes. Upon the advice of the Attorney General, the method of handling investment interest is in compliance with the statutes rather than the bond indenture.

**State of Oregon**  
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The following schedule shows the debt service requirements for general obligation bonds as of June 30, 2003 (in thousands):

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004 .....	\$ 5,240	\$ 7,446	\$ 150,152	\$ 100,524
2005 .....	8,725	7,191	130,322	92,867
2006 .....	7,630	6,862	112,640	85,632
2007 .....	7,980	6,553	109,695	79,851
2008 .....	7,540	6,212	108,245	73,717
2009-2013 .....	42,230	25,418	286,293	308,103
2014-2018 .....	40,075	14,759	393,289	249,321
2019-2023 .....	38,750	4,854	402,947	151,467
2024-2028 .....	285	6	215,890	76,725
2029-2033 .....	-	-	110,175	31,717
2034-2038 .....	-	-	34,230	15,135
2039-2043 .....	-	-	37,630	5,283
2044-2048 .....	-	-	160	4
Total .....	<u>\$158,455</u>	<u>\$ 79,301</u>	<u>\$ 2,091,668</u>	<u>\$1,270,346</u>

**B. Revenue Bonds.** Authority for the State to issue revenue bonds is granted in the Oregon Revised Statutes (ORS). Revenue bonds are secured by a pledge of revenues derived from the operation of a program funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

The State is authorized in ORS 286.560 through 286.580 and 348.716 to issue revenue bonds that are supported by unobligated net lottery proceeds. To date, these lottery revenue bonds have been issued for infrastructure improvements, state parks, expansion and refurbishment of school facilities, light rail transportation, improvement of state fair facilities, and economic development in rural and distressed communities. Lottery revenue bonds have been issued for both governmental and business-type activities.

Highway user tax bonds, authorized by ORS 367.615, are issued by the Department of Transportation for governmental activities to build and maintain public roads. Debt service payments for these bonds are funded by highway user taxes.

ORS 565.095 authorizes the issuance of revenue bonds for capital construction and improvements for the State Fair and Exposition Center. Revenues from state fair activities support these bonds. The Housing and Community Services Department is authorized by ORS 456.645 to issue revenue bonds for financing single-family mortgage loans and multi-family housing projects. Mortgage payments and fees as well as rental revenues support these bonds. The Economic and Community Development Department is authorized in ORS 285B.467 to 285B.479 to issue revenue bonds for financing infrastructure improvement projects through the Special Public Works Fund and is authorized in ORS 285B.572 to 285B.578 to issue revenue bonds for financing water projects through the Water Fund. Loan repayments support the bonds for both of these activities. All of these bonds for business-type activities are self-supporting.

The Public Employees Retirement System guarantees the bonds reported in the Pension Trust Fund. In 1992, PERS entered into an agreement to guarantee \$50.0 million in Pamcorp taxable revenue bonds. The company ceased operations in October 1993. The Pension Trust Fund has been making payments since October 1994.

Authority is granted in ORS 353.340 for the Oregon Health and Science University (OHSU), a discretely presented component unit of the State, to issue revenue bonds for the construction and refurbishment of facilities or the acquisition of equipment in accordance with ORS 288.805 to 288.945. These revenue bonds are payable from the revenues of OHSU.

**State of Oregon**  
**Notes to the Financial Statements**

The following schedule shows the debt service requirements for revenue bonds as of June 30, 2003 (in thousands):

Year Ending June 30,	Governmental Activities		Business-type Activities		Pension Trust Fund		Discretely Presented Component Units	
	Principal	Interest	Principal <sup>1</sup>	Interest	Principal	Interest	Principal	Interest
2004 .....	\$ 41,758	\$ 37,591	\$ 184,382	\$ 70,603	\$ 900	\$ 4,055	\$ 6,165	\$ 22,399
2005 .....	49,421	36,577	118,949	68,889	1,000	3,980	6,575	21,339
2006 .....	49,079	34,814	38,368	66,798	1,100	3,897	7,095	21,101
2007 .....	50,755	32,836	39,981	64,589	1,200	3,805	7,255	20,863
2008 .....	53,791	30,645	43,474	63,500	1,300	3,704	10,660	20,564
2009-2013 .....	264,431	115,815	213,285	280,737	8,400	16,675	54,853	103,170
2014-2018 .....	180,009	52,472	214,531	224,168	12,500	12,288	67,517	108,291
2019-2023 .....	63,505	21,096	226,810	164,744	18,800	5,042	75,910	110,297
2024-2028 .....	50,755	5,365	263,190	97,259	-	-	138,310	54,651
2029-2033 .....	-	-	184,475	32,543	-	-	175,315	20,638
2034-2038 .....	-	-	28,425	6,176	-	-	-	-
2039-2043 .....	-	-	12,920	2,280	-	-	-	-
2044-2048 .....	-	-	950	26	-	-	-	-
Total .....	<u>\$ 803,504</u>	<u>\$367,211</u>	<u>\$1,569,740</u>	<u>\$1,142,312</u>	<u>\$ 45,200</u>	<u>\$ 53,446</u>	<u>\$ 549,655</u>	<u>\$ 503,313</u>

<sup>1</sup> Includes bonds with a variable interest rate based on the one-month London InterBank Offered Rate plus 0.40% not to exceed 11.0% for \$7.3 million and not to exceed 11.5% for \$8.8 million. The interest rate at the end of the year for those bonds was 1.7%.

**C. Certificates of Participation.** ORS 283.085 to 283.092 authorizes the State to enter into financing agreements through the issuance of certificates of participation. The State has issued certificates of participation to provide funds for the acquisition of computer systems, the acquisition of telecommunication systems, and for the acquisition, construction, or remodeling of State facilities. Certificates of participation have been issued for both governmental and business-type activities.

The following schedule shows the debt service requirements for certificates of participation as of June 30, 2003 (in thousands):

Year Ending June 30,	Governmental Activities		Business-type Activities		Pension Trust Fund	
	Principal	Interest	Principal	Interest	Principal	Interest
2004 .....	\$ 37,771	\$ 37,619	\$ 3,994	\$ 1,721	\$ 350	\$ 356
2005 .....	36,045	35,867	2,860	1,508	370	340
2006 .....	36,573	34,158	2,652	1,383	390	322
2007 .....	35,634	32,490	1,711	1,280	405	303
2008 .....	37,837	30,887	2,478	1,158	425	282
2009-2013 .....	194,730	126,041	7,570	3,780	2,485	1,063
2014-2018 .....	199,414	77,291	3,746	496	2,510	338
2019-2023 .....	145,070	32,417	-	-	-	-
2024-2028 .....	53,325	5,230	-	-	-	-
2029-2033 .....	485	12	-	-	-	-
Total .....	<u>\$ 776,884</u>	<u>\$ 412,012</u>	<u>\$ 25,011</u>	<u>\$ 11,326</u>	<u>\$ 6,935</u>	<u>\$ 3,004</u>

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**D. General Appropriation Bonds.** During the 2003 legislative session, Senate Bill 856 authorized the State to issue general appropriation bonds. The State has issued general appropriation bonds for general government activities.

The following schedule shows the debt service requirements for general appropriation bonds as of June 30, 2003 (in thousands):

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2004 .....	\$ -	\$ 17,499
2005 .....	22,095	19,723
2006 .....	23,600	19,151
2007 .....	25,625	18,319
2008 .....	27,950	17,123
2009-2013 .....	304,095	46,967
2014-2018 .....	<u>28,195</u>	<u>696</u>
Total .....	<u>\$ 431,560</u>	<u>\$ 139,478</u>

**E. Changes in Long-Term Liabilities.** The following schedule summarizes the changes in long-term liabilities for governmental activities for the year ended June 30, 2003 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bonds/certificates payable:					
General obligation bonds .....	\$ 68,715	\$ 97,610	\$ 7,870	\$ 158,455	\$ 5,240
Revenue bonds .....	743,870	170,260	110,626	803,504	41,759
Certificates of participation .....	787,320	37,986	48,422	776,884	37,771
General appropriation bonds .....	-	431,560	-	431,560	-
Less deferred amounts:					
For issuance discounts .....	(1,225)	(34)	(270)	(989)	-
For issuance premiums .....	21,944	49,323	2,778	68,489	-
On refunding .....	<u>(18,028)</u>	<u>(5,234)</u>	<u>(5,133)</u>	<u>(18,129)</u>	<u>-</u>
Total bonds/certificates payable .....	<u>1,602,596</u>	<u>781,471</u>	<u>164,293</u>	<u>2,219,774</u>	<u>84,770</u>
Other liabilities:					
Obligations under capital lease .....	5	119	45	79	8
Claims and judgments .....	1,170,253	22,893	65,393	1,127,753	124,371
Arbitrage rebate .....	5,089	2,124	5,162	2,051	2,051
Contracts, mortgages and notes .....	<u>837</u>	<u>356</u>	<u>410</u>	<u>783</u>	<u>684</u>
Total other liabilities .....	<u>1,176,184</u>	<u>25,492</u>	<u>71,010</u>	<u>1,130,666</u>	<u>127,114</u>
Total governmental activity long-term liabilities .....	<u>\$ 2,778,780</u>	<u>\$ 806,963</u>	<u>\$ 235,303</u>	<u>\$ 3,350,440</u>	<u>\$ 211,884</u>

Internal service funds predominantly serve the governmental funds; thus, long-term liabilities for them are included as part of the totals for governmental activities. The claims and judgments liability will generally be liquidated through the Employment Services Fund and the Central Services Fund, an internal service fund. The arbitrage rebate liability will generally be liquidated through the Environmental Management Fund and the remainder by other governmental funds and internal service funds. The liability for contracts, mortgages, and notes will generally be liquidated through internal service funds.

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The following schedule summarizes the changes in long-term liabilities for business-type activities for the year ended June 30, 2003 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Bonds/certificates payable:					
General obligation bonds .....	\$ 2,263,751	\$ 147,265	\$ 319,348	\$ 2,091,668	\$ 150,256
Revenue bonds .....	1,438,265	513,990	382,515	1,569,740	184,382
Certificates of participation .....	28,340	12,739	16,068	25,011	3,993
Less deferred amounts:					
For issuance discounts .....	(7,132)	(254)	(1,193)	(6,193)	-
For issuance premiums .....	3,441	3,374	433	6,382	-
On refunding .....	(1,340)	(2,991)	(268)	(4,063)	-
For accreted interest .....	61,476	10,882	4,911	67,447	-
Total bonds/certificates payable .....	<u>3,786,801</u>	<u>685,005</u>	<u>721,814</u>	<u>3,749,992</u>	<u>338,631</u>
Other liabilities:					
Obligations under capital lease .....	1,381	524	1,008	897	351
Lottery prize awards .....	86,702	39,969	12,434	114,237	12,368
Arbitrage rebate .....	6,378	835	4,107	3,106	2,136
Contracts, mortgages and notes .....	8,577	91,742	93,816	6,503	667
Trust funds .....	18,672	827,087	826,947	18,812	18,032
Total other liabilities .....	<u>121,710</u>	<u>960,157</u>	<u>938,312</u>	<u>143,555</u>	<u>33,554</u>
Total business-type activity long-term liabilities .....	<u>\$ 3,908,511</u>	<u>\$ 1,645,162</u>	<u>\$ 1,660,126</u>	<u>\$ 3,893,547</u>	<u>\$ 372,185</u>

The following schedule summarizes the changes in long-term liabilities for fiduciary fund activities for the year ended June 30, 2003 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Fiduciary fund activities:</b>					
Bonds/certificates payable:					
Revenue bonds .....	\$ 46,100	\$ -	\$ 900	\$ 45,200	\$ 900
Certificates of participation .....	7,270	-	335	6,935	350
Less deferred amounts:					
For issuance premiums .....	372	-	22	350	-
On refunding .....	(405)	-	(65)	(340)	-
Total bonds/certificates payable .....	<u>53,337</u>	<u>-</u>	<u>1,192</u>	<u>52,145</u>	<u>1,250</u>
Other liabilities:					
Contracts, mortgages and notes .....	1,159	-	200	959	34
Total other liabilities .....	<u>1,159</u>	<u>-</u>	<u>200</u>	<u>959</u>	<u>34</u>
Total fiduciary fund long-term liabilities .....	<u>\$ 54,496</u>	<u>\$ -</u>	<u>\$ 1,392</u>	<u>\$ 53,104</u>	<u>\$ 1,284</u>

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The following schedule summarizes the changes in long-term liabilities for the SAIF Corporation for the year ended December 31, 2002, and for the Oregon Health and Science University for the year ended June 30, 2003 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Discretely presented component units:</b>					
Bonds/certificates payable:					
Revenue bonds.....	\$ 307,780	\$ 250,000	\$ 8,125	\$ 549,655	\$ 6,172
Less deferred amounts:					
For issuance premiums .....	-	1,206	29	1,177	-
For issuance discounts .....	(3,893)	(1,512)	(260)	(5,145)	-
For accreted interest.....	<u>11,620</u>	<u>2,195</u>	<u>-</u>	<u>13,815</u>	<u>-</u>
Total bonds/certificates payable....	<u>315,507</u>	<u>251,889</u>	<u>7,894</u>	<u>559,502</u>	<u>6,172</u>
Other liabilities:					
Obligations under capital lease.....	5,714	-	482	5,232	528
Claims and judgments .....	2,143,737	463,398	321,563	2,285,572	-
Contracts, mortgages and notes.....	<u>74,551</u>	<u>-</u>	<u>13,206</u>	<u>61,345</u>	<u>-</u>
Total other liabilities.....	<u>2,224,002</u>	<u>463,398</u>	<u>335,251</u>	<u>2,352,149</u>	<u>528</u>
Total discretely presented component units long-term liabilities.....	<u>\$ 2,539,509</u>	<u>\$ 715,287</u>	<u>\$ 343,145</u>	<u>\$ 2,911,651</u>	<u>\$ 6,700</u>

**F. Interest Included as Direct Expense.** Interest expense of \$245.6 million on long-term debt has been included in the direct expenses of individual functions on the government-wide statement of activities. Authorization for general long-term debt is specific to a particular purpose; thus, an objective connection can be made to a specific program. All interest on long-term debt is reported as a direct expense of the program for which borrowing is related, excluding Oregon appropriation bond interest expense. Financial resources from long-term debt issuance in the State are not fungible, except for resources provided by Oregon appropriation bonds. Oregon appropriation bond resources are used for any purpose for which moneys in the General Fund may be expended.

**G. Demand Bonds.** Included in long-term debt at June 30, 2003, is \$370.0 million of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, Series 73 E, F, G, and H. The bonds are general obligations of the State and are payable from revenues and reserves of the Veterans' Loan Program. The bondholder may tender these bonds on specified dates at a price equal to principal plus accrued interest.

The Department of Veterans' Affairs Remarketing Agents (J.P. Morgan Securities Inc. and Morgan Stanley) are authorized to use their best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a weekly basis. The interest rate borne by each series of bonds will be determined by the designated Remarketing Agent for such bonds.

In the event the bonds cannot be remarketed, they will be purchased as specified by the Standby Bond Purchase Agreement (SBPA). Under the SBPA, JP Morgan Chase Bank will commit to purchase any Series 73 E and G unremarketed bonds, and Bayerische Landesbank Girozentrale will commit to purchase any Series 73 F and H unremarketed bonds, in each case subject to certain conditions set forth in the SBPA.

No tender advances or draws have been necessary to purchase any unremarketed bonds under the SBPA. Therefore, no tender advances or draws are outstanding as of June 30, 2003. If a tender advance did occur, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher). If the tender advance is in default, interest would accrue at the bank's base rate plus 1 percent. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off in approximately two years. Tender advances could be paid off earlier than two years if the Department of Veterans' Affairs elected to do so. If repayment of any tender advances does not occur within the specified timeframes contained in the SBPA, a default would have occurred.

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Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal of and up to 40 days' of accrued interest calculated at a rate of 14 percent per annum, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of each bank may be reduced from time to time upon occurrence of certain events specified in the SBPA. As of June 30, 2003, the Department of Veterans' Affairs is required to pay a yearly commitment fee, payable quarterly in arrears, at a rate of 0.14 percent per annum, applied to the purchase commitment.

The present purchase commitments by the banks will remain in effect to the earlier of (a) June 22, 2004 (scheduled expiration date), unless extended at the option of the bank; (b) the conversion of all outstanding bonds of a given series to either a variable rate or a fixed (or term) rate; (c) the date on which no bonds of a given series are outstanding; (d) the date on which the commitment with respect to a particular series has been terminated in accordance with the SBPA.

**H. No-Commitment Debt.** No-commitment debt refers to debt issued to finance public purpose expenditures intended for beneficial ownership by private entities. Such debt bears the name of the State but is secured solely by the credit of the private entity and usually is serviced and administered by a trustee independent of the State. The State has no obligation for payment of this debt. Accordingly, this debt is not reported in the accompanying financial statements.

The following schedule shows no-commitment debt as of June 30, 2003 (in thousands):

Economic and Community Development Department .....	\$ 504,513
Housing and Community Services Department .....	42,839
Oregon Facilities Authority .....	<u>522,209</u>
Total No-Commitment Debt .....	<u>\$ 1,069,561</u>

**I. Debt Refundings.** Occasionally, the State issues new bonds to extinguish the debt of previously issued bonds in order to take advantage of lower interest rates. In instances of advanced refunding, the money from the sale of these bonds is placed in an irrevocable trust to provide for all future debt service payments on the old bonds. The amount of these issues has provided funds to pay the interest and principal when due on the refunded bonds to and including the dates irrevocably fixed for redemption and to pay the principal amounts of the old bonds to be redeemed on such irrevocable redemption dates. The trust account assets and liabilities for the defeased bonds are not included in the accompanying financial statements.

The following provides a brief description of the current/advance refunding issues that occurred between July 1, 2002, and June 30, 2003:

Governmental Activities

*Department of Administrative Services*

On October 15, 2002, the Department of Administrative Services issued \$12.7 million in 2002 Series E Certificates of Participation with an average interest rate of 3.7 percent. These certificates were issued to refund \$13.2 million of outstanding 1993 Series A and Series B Certificates of Participation with an average interest rate of 5.5 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 5 years by \$1.7 million and results in an economic gain of \$1.5 million.

On March 27, 2003, the Department of Administrative Services issued \$1.3 million in 2003 Series A Certificates of Participation with an average interest rate of 3.5 percent. These certificates were issued to refund \$1.3 million of outstanding 1993 Series C Certificates of Participation with an average interest rate of 5.8 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 5 years by \$0.2 million and results in an economic gain of \$0.2 million.



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*Department of Transportation*

On August 28, 2002, the Department of Transportation issued \$60.1 million in Series 2002 revenue refunding bonds with an average interest rate of 3.9 percent. These revenue bonds were issued to refund \$57.5 million of outstanding 2000 Series A Certificates of Participation with an average interest rate of 6.2 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 8 years by \$2.7 million and results in an economic gain of \$2.7 million.

Business-type Activities

*Department of Administrative Services*

On October 15, 2002, the Department of Administrative Services issued \$10.6 million in 2002 Series E Certificates of Participation with an average interest rate of 3.7 percent. These certificates were issued to refund \$11.0 million of outstanding 1993 Series A and Series B Certificates of Participation with an average interest rate of 5.5 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 5 years by \$1.4 million and results in an economic gain of \$1.2 million.

On March 27, 2003, the Department of Administrative Services issued \$1.0 million in 2003 Series A Certificates of Participation with an average interest rate of 3.5 percent. These certificates were issued to refund \$1.0 million of outstanding 1993 Series C Certificates of Participation with an average interest rate of 5.8 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 5 years by \$0.2 million and results in an economic gain of \$0.2 million.

*Oregon University System*

On November 21, 2002, the Oregon University System issued \$36.1 million of Series A and Series B General Obligation Bonds with an average interest rate of 4.3 percent. These bonds refunded \$37.8 million of general obligation bonds with an average interest rate of 6.0 percent. The current and advance refunding was undertaken to reduce the total debt service payments over the next 16 years by \$6.8 million and resulted in an economic gain of \$4.6 million.

*Housing and Community Services Department*

On October 29, 2002, the Housing and Community Services Department issued \$54.2 million of Elderly and Disabled Housing Bonds with an average interest rate of 3.7 percent. These bonds refunded \$54.2 million of previously issued Elderly and Disabled Housing Bonds from various series with an average interest rate of 6.3 percent. The current refunding was undertaken to reduce the total debt service payments over the next 22 years by \$17.9 million and resulted in an economic gain of \$11.6 million.

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**J. Defeased Debt.** The following schedule summarizes the amount of bonds and certificates of participation outstanding that are considered defeased as of June 30, 2003 (in thousands):

<u>Governmental Activities</u>	
Department of Administrative Services .....	\$ 6,090
Department of Corrections.....	417,125
Oregon Youth Authority .....	20,030
Department of Transportation.....	51,100
Total Governmental Activities .....	<u>494,345</u>
<u>Business-type Activities</u>	
Economic and Community Development Department .....	5,980
Oregon University System .....	74,294
Water Resources Department .....	10,970
Total Business-type Activities .....	<u>91,244</u>
<u>Pension Trust Fund</u>	
Public Employees Retirement System .....	5,725
<u>Discretely Presented Component Unit</u>	
Oregon Health and Science University.....	<u>10,425</u>
Total Defeased Bonds and Certificates of Participation .....	<u>\$ 601,739</u>

**K. Arbitrage Rebate Liability.** The Tax Reform Act of 1986 placed restrictions on the nonpurpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the nonpurpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Nonpurpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government.

The following schedule identifies outstanding arbitrage rebate liabilities as of June 30, 2003 (in thousands):

<u>Governmental Activities</u>	
Department of Administrative Services .....	\$ 420
Economic and Community Development Department .....	275
Military Department.....	22
Department of Corrections.....	597
Department of Environmental Quality.....	345
Department of Human Services .....	13
Oregon Youth Authority .....	52
Department of Employment .....	3
Department of Education .....	270
Department of Forestry.....	28
Parks and Recreation Department .....	23
Department of Transportation.....	3
Total Governmental Activities .....	<u>2,051</u>
<u>Business-type Activities</u>	
Department of Veterans' Affairs.....	287
Office of Energy .....	278
Oregon University System .....	408
State Fair and Expo Center .....	50
Housing and Community Services Department .....	2,083
Total Business-type Activities .....	<u>3,106</u>
Total Arbitrage Rebate Liability .....	<u>\$ 5,157</u>

## 10. INTERFUND TRANSACTIONS

Due To Other Funds

## Advances To Other Funds

Interfund balances result from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures/expenses occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Advances due to and from other funds are not expected to be repaid within one year.

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Interfund transfers reported in the fund financial statements as of June 30, 2003 consisted of the following (in thousands):

Transfers To Other Funds										
Transfers From Other Funds	General	Health and Social Services	Public Transportation	Environmental Management	Nonmajor Governmental Funds	Lottery Operations	Unemployment Compensation	Nonmajor Enterprise Funds	All Others	Total
General	-	2,000	7,372	625	38,698	-	-	60,140	1,101	109,936
Health and Social Services	4,706	-	20	40	70,375	-	-	12,389	189	87,719
Public Transportation	274	4,106	-	152	4,378	-	-	-	6	8,916
Environmental Management	9,004	6,945	27,558	-	58,061	-	-	326	5,401	107,295
Educational Support	(909)	191,385	-	28	508,619	-	-	-	2,614	701,737
Nonmajor Governmental Funds	3,828	49,775	57,071	25,005	124,863	365,060	21,053	14,883	13,876	675,414
Unemployment Compensation	-	-	-	-	49	-	-	-	-	49
University System	354,176	2,593	41	534	6,104	-	-	6	572	364,026
Nonmajor Enterprise Funds	1,247	61,484	-	-	31,451	-	-	2,926	86	97,194
Internal Service Funds	-	532	-	26	2,383	-	-	825	-	3,766
Fiduciary Funds	-	137	13	8,677	-	-	-	720	487	10,034
Total	372,326	318,957	92,075	35,087	844,981	365,060	21,053	92,215	24,332	2,166,086

	Transfers To Other Funds	Transfers From Other Funds
Amount per table above		
Transfers of general capital assets:		
From Other Enterprise Funds to general governmental capital assets	70	-
To Central Services Fund from general governmental capital assets	-	3
<b>Total transfers to/from</b>	<b>2,166,156</b>	<b>2,166,089</b>

In the fund financial statements, total transfers to other funds of \$2,166,156 are greater than total transfers from other funds by \$67 thousand because of the treatment of transfers of capital assets to and from proprietary funds to the general government. During the year, existing capital assets related to governmental funds, with a book value of \$3 thousand, were transferred to the Central Services Fund. No amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. However, the Central Services Fund reported a transfer in for the capital resources received. Capital assets of the Other Enterprise Fund, with a book value of \$70 thousand, were transferred to capital assets related to governmental funds. Again, no amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. The Other Enterprise Fund did report a transfer out for the capital resources provided.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service or capital construction from the funds collecting the receipts to the appropriate funds, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended June 30, 2003, there were no significant individual transfers that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

## 11. SEGMENT INFORMATION

The Oregon State Fair and Exposition Center (OSFEC) issued revenue bonds to finance certain capital construction and renovation projects prior to the 1987 Oregon State Fair. These bonds were refinanced in August 1996 in order to obtain a lower interest rate for the years remaining on the issue. Revenues from activities conducted at the OSFEC secure the OSFEC bonds.

Sections 285B.410 through 285B.482 of the Oregon Revised Statutes (ORS) create the Special Public Works Fund and authorize the Oregon Economic and Community Development Department (OECD) to issue revenue bonds to finance loans to municipalities for infrastructure projects. ORS 285B.560 through 285B.599 establish the Water Fund and authorize OECD to issue revenue bonds to finance loans to municipalities for safe drinking water projects and waste water system improvement projects. Loan repayments are pledged to repay the outstanding bonds.

Summary financial information for the Oregon State Fair and Exposition Center, the Special Public Works Fund, and the Water Fund for the year ended June 30, 2003 (in thousands) is presented below:

### Condensed Balance Sheet

	<u>OSFEC</u>	<u>Special Public Works Fund</u>	<u>Water Fund</u>
Assets:			
Due from other funds	\$ 1,577	\$ -	\$ -
Other current assets	12,039	27,313	8,500
Noncurrent assets – restricted	2,206	44,537	44,890
Capital assets	25,080	-	-
Accumulated depreciation	(12,503)	-	-
Other noncurrent assets	263	167,908	58,926
Total assets	<u>\$ 28,662</u>	<u>\$ 239,758</u>	<u>\$ 112,316</u>
Liabilities:			
Current liabilities	1,718	10,181	6,516
Advances from other funds	67	-	-
Other noncurrent liabilities	21,727	118,314	54,171
Total liabilities	<u>23,512</u>	<u>128,495</u>	<u>60,687</u>
Capital assets net of related debt	1,658	-	-
Net assets restricted for debt service	-	3,776	717
Net assets restricted for capital construction	9,095	-	-
Net assets restricted for public works projects	-	59,424	38,326
Net assets (unrestricted)	(5,603)	48,063	12,586
Total net assets	<u>5,150</u>	<u>111,263</u>	<u>51,629</u>
Total liabilities and net assets	<u>\$ 28,662</u>	<u>\$ 239,758</u>	<u>\$ 112,316</u>

### Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets

	<u>OSFEC</u>	<u>Special Public Works Fund</u>	<u>Water Fund</u>
Loan interest income	\$ -	\$ 8,641	\$ 3,725
Other operating revenue	5,583	1,029	554
Depreciation and amortization	(515)	-	-
Other operating expenses	(9,271)	(11,353)	(7,285)
Operating income (loss)	<u>(4,203)</u>	<u>(1,683)</u>	<u>(3,006)</u>
Transfers from other funds	2,190	18,059	12,424
Transfers to other funds	-	(624)	(2,302)
Change in net assets	(2,013)	15,752	7,116
Beginning net assets (as restated)	7,163	95,511	44,513
Ending net assets	<u>\$ 5,150</u>	<u>\$ 111,263</u>	<u>\$ 51,629</u>

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**Condensed Statement of Cash Flows**

	<u>OSFEC</u>	<u>Special Public Works Fund</u>	<u>Water Fund</u>
Net cash provided (used) by:			
Operating activities	\$ (2,834)	\$ (28,777)	\$ (6,386)
Noncapital financing activities	1,650	31,851	8,688
Capital and related financing activities	6,909	-	-
Investing activities	(703)	1,044	538
Net increase (decrease)	5,022	4,118	2,840
Beginning cash and cash equivalents (as restated)	7,069	58,822	47,552
Ending cash and cash equivalents	<u>\$ 12,091</u>	<u>\$ 62,940</u>	<u>\$ 50,392</u>

## 12. EMPLOYEE RETIREMENT PLANS

**A. Plan Descriptions.** The Public Employees Retirement System (PERS) is a defined benefit retirement plan for units of State government, school districts, community colleges, and political subdivisions of the State. PERS is administered by the Public Employees Retirement Board (Board) under the guidelines of Chapter 238 of the Oregon Revised Statutes, and it provides retirement benefits and cost-of-living adjustments as well as disability, postemployment healthcare, and death benefits to plan members and beneficiaries.

PERS is a single pension plan that features both a cost-sharing multiple-employer pension plan and an agent multiple-employer pension plan. All plan assets may legally be used to pay benefits to any of the plan members or beneficiaries for which the assets were accumulated. Participation in the PERS cost-sharing multiple-employer plan is mandatory for units of State government, community colleges, and school districts. PERS is an agent multiple employer plan for political subdivisions who have not elected to join the State and Local Government Rate Pool. Participation by most political subdivisions is optional, but irrevocable if elected. The State has no obligation to contribute, and it does not contribute, to the agent multiple-employer pension plan. At June 30, 2003, PERS had 869 employer members consisting of:

State Agencies	125
Community Colleges	17
School Districts	232
Political Subdivisions	495
Total	<u>869</u>

The PERS defined benefit retirement plan is reported in a pension trust fund of the State primary government. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68<sup>th</sup> Parkway, Tigard, Oregon 97223.

Effective July 1, 1996, the Oregon Health and Science University (OHSU) established the University Pension Plan (UPP). The UPP is a defined contribution plan that is available to employees as an alternative to PERS. Employees become fully vested in employer contributions over a four-year period.

The 1995 Oregon Legislature enacted legislation authorizing the Oregon University System (OUS) to offer a defined contribution retirement plan as an alternative to PERS. Beginning April 1, 1996, the Optional Retirement Plan (ORP) became available to OUS unclassified faculty and staff who were eligible for PERS. In addition to PERS and ORP, the OUS offers a variety of retirement options including the Teacher's Insurance and Annuity Association and College Retirement Equities Fund, the Federal Civil Service Retirement System, and the Federal Employees Retirement System.

**B. Summary of Significant Accounting Policies.** The financial statements of PERS are prepared using the accrual basis of accounting. Plan member contributions and employer member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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Plan investments are reported at fair value. The fair value of debt and equity securities is determined by the custodial agent, using recognized pricing services. Investments in alternative equities representing publicly traded securities are stated at the quoted market price. Investments in alternative equities representing private securities are generally reported at cost unless a significant market event warrants an adjustment to cost. Mortgage loans on real estate and state agency loans are stated at the amortized unpaid principal balance. Fair values of investments in real estate are based upon the valuations provided by investment managers and advisors retained by the Oregon State Treasury.

**C. Funding Policies.** The PERS funding policy provides for plan monthly employer contributions at actuarially determined rates. These contributions, coupled with employee contributions, are intended to accumulate sufficient assets to pay retirement benefits when due. Plan member contributions are established by State statute; the Board, based on the required actuarially determined rate, establishes State employer contributions. The following schedule summarizes the required State employee contributions and the required State employer contributions, shown as a percentage of covered salary, for the PERS multiple-employer plans, as of June 30, 2003:

	<u>Employee</u>	<u>Employer</u>
State Agencies and Community Colleges	6.0%	9.49%
Judiciary	7.0%	10.79%
School Districts	6.0%	12.73%
Political Subdivisions	6.0%	9.77%

The State employer contributions to PERS for the years ended June 30, 2003, 2002, and 2001 were approximately \$195.1 million, \$189.4 million, and \$193.4 million respectively, and were equal to the required contributions for each year.

The OHSU Board of Directors determines contribution levels for the UPP. Employer contributions to the plan are 6.0% of salary and employee contributions are an additional 6.0%. Currently OHSU is funding employee contributions. The OHSU employer contributions to the UPP for the years ended June 30, 2003, 2002, and 2001 were approximately \$5.9 million, \$5.0 million, and \$3.8 million respectively, and were equal to the employee contributions for each year.

Under the ORP Tier One and Tier Two, the employee contribution rate is 6.0% and is paid by OUS. The employer contribution rate for the ORP Tier One and Tier Two is 9.49% and 8.5%, respectively. The OUS employer contribution to the ORP for the years ended June 30, 2003, 2002, and 2001 was approximately \$11.8 million, \$10.8 million, and \$9.4 million respectively. The OUS employee contribution to the ORP for the years ended June 30, 2003, 2002, and 2001 was approximately \$7.5 million, \$6.8 million, and \$6.2 million respectively.

### **13. OTHER POSTEMPLOYMENT BENEFITS**

Under Oregon Revised Statute 238.410, the Public Employees Retirement Board (Board), acting through the Public Employees Retirement System (PERS) may contract for medical and hospital insurance on behalf of retired members. Members and their dependents are eligible for PERS health care coverage if the member is receiving a retirement allowance or benefit under the PERS. A surviving spouse or dependent of a PERS retiree is eligible to participate if the surviving spouse or dependent was covered under the health plan at the time of the retiree's death.

Oregon Revised Statute 238.420 established the Retirement Health Insurance Account (RHIA) and authorized the payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To qualify, the member must: (1) have eight years or more qualifying service in the PERS system at the time of retirement, or receive a disability allowance as if the member had eight years or more of creditable service in the PERS system, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health plan.

A surviving spouse or dependent of a deceased PERS retiree who had been eligible to receive the contribution is eligible to receive the subsidy if the individual is receiving a retirement benefit or allowance from PERS, or the individual was insured at the time the member died and the member retired before May 1, 1991.

All PERS employers currently contribute 0.64 percent of covered payroll to fund the RHIA. This contribution is included in the employer contribution rates discussed in Note 12. The employer contribution rate covers the normal cost payment and an amount to amortize the unfunded actuarial accrued liability over a period commencing on the actuarial valuation date and ending on December 31, 2027.

Employers' contributions are advance-funded on an actuarially determined basis. The employers' aggregate actual contribution for the year ended June 30, 2003, totaled approximately \$41.2 million. The number of active plan RHIA participants totaled 33,632 for the year ended June 30, 2003.

Oregon Revised Statute 238.415 established the Retirement Health Insurance Premium Account (RHIPA) and requires the Board on or before January 1 of each year to calculate the average difference between the health insurance premiums paid by retired State employees under contracts entered into by the Board and health insurance premiums paid by State employees who are not retired. ORS 238.415 authorizes payment of this average difference to qualified retired State employees. Retired State employees are qualified to receive this benefit if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage.

A surviving spouse or dependent of a deceased retired State employee is eligible to receive the subsidy if he or she is receiving a retirement benefit or allowance from PERS or was insured at the time the member died and the member retired on or after September 29, 1991.

For State agencies, the actuarial valuation as of December 31, 1999, includes 0.09 percent of PERS covered salaries to fund the RHIPA. This rate went into effect July 1, 2001. The number of active plan RHIPA participants totaled 840 for the year ended June 30, 2003. State employer contributions for the year ended June 30, 2003, totaled approximately \$1.6 million.

The postemployment retirement health care benefit obligation, including both RHIA and RHIPA, was determined as part of the actuarial valuation prepared by the PERS consulting actuary at December 31, 1999. Significant assumptions used in the actuarial update include: a rate of return on the investment of present and future assets of 8.0 percent per annum, projected salary increases, and a health cost inflation adjustment. However, there is no inflation assumption for RHIA postemployment benefits because the payment amount is set by statute and is not adjusted for increases in health care costs.

## **14. DEFERRED COMPENSATION PLANS**

**A. Deferred Compensation Fund.** ORS 243.411 established the Deferred Compensation Fund. ORS 243.400 to 243.507 established and provided for PERS to administer the Deferred Compensation funds with the Oregon Savings Growth Plan (State Plan). The State Plan is a benefit available to eligible State employees. To participate, an employee enters into an individual agreement with the State deferring current earnings to be paid at a future date. The Board, as trustee of the assets, contracts with Citistreet, a joint venture between Citigroup and State Street Bank and Trust Company, to maintain participant records. The Oregon State Treasury, as custodian of the assets, also contracts with State Street Bank and Trust Company to provide financial services. Activity of the State Plan is accounted for in a pension trust fund. As of June 30, 2003, the fair value of investments was \$577.0 million.

**B. SAIF Corporation Deferred Compensation Plan.** SAIF Corporation administers a deferred compensation plan that is available to SAIF employees (SAIF Plan). Employees may enter into an individual agreement with SAIF Corporation deferring current earnings to be paid at a future date. The SAIF Plan assets are held in a custodial account or an annuity contract by the plan provider for the exclusive benefit of the participants or their beneficiaries. The plan is administered in compliance with Internal Revenue Code Section 457(g). The plan assets and the corresponding liability are not reported in the SAIF Corporation balance sheet at December 31, 2002.

Participants in both the State Plan and the SAIF Plan are not required to pay federal or State income taxes on the deferred earnings until those earnings are received. Participants or their beneficiaries cannot receive the funds until at least one of the following circumstances is met: termination by reason of death; disability; resignation; retirement; unforeseeable emergency; or by requesting a de minimis distribution from inactive accounts valued less than \$5,000. Payments to participants may be made over a period not to exceed the life expectancy of the participant and/or alternate payee. Employees of education institutions may participate in both the State Plan and 403(b) tax-deferred annuity programs.

The State and SAIF Corporation have no liability for losses under these deferred compensation plans, but they do have the duty of due care that would be required of an ordinary prudent investor.



## 15. RISK FINANCING

**A. Property, Liability, and Workers' Compensation Coverages for State Government.** The Risk Management Division of the Department of Administrative Services administers the State's property and liability insurance programs. The division believes it is economical to manage the State's risks internally. The division minimizes purchases of commercial insurance for most risks of loss. The division sets aside assets for actuarially forecasted losses in the Insurance Fund. It is an internal service fund established under Chapter 278 of the Oregon Revised Statutes. The Insurance Fund services claims for these risks:

- Direct physical loss or damage to State property
- Tort liability claims brought against the State, its officers, employees, or agents
- Inmate injury
- Workers' compensation
- Employee dishonesty
- Faithful performance bonds for key positions as required by law and additional positions as determined by agency policy

The fund is backed by commercial policies, such as an excess property policy with a limit of \$375 million and a blanket commercial excess bond with a limit of \$20 million. The division purchases commercial insurance for specific insurance needs not covered by the fund. The amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years.

All State agencies, commissions and boards participate in the fund. The division allocates the cost of claims and claims administration by charging an assessment to each State entity, based on its share of losses. Statewide risk charges are based on independent biennial actuarial forecasts and division expenses, less any available fund balance from the prior biennium.

The division purchases workers' compensation insurance for the State from SAIF Corporation. The Insurance Fund reimburses SAIF Corporation for claim costs and service fees. The division purchased retrospective self-insurance plans for fiscal years 1997 through 2003 that have cash flow and investment earnings advantages. The plans are ten years in length. The accumulated claim loss liability for the plans was approximately \$31 million as of June 30, 2003. Independent actuaries determine biennial loss forecasts.

The division reevaluates claim liabilities periodically, considering recently settled claims, the frequency of claims, and other economic and social factors. Liabilities include an amount for claims and legal expenses that have been incurred but not reported. The estimation process is not exact since actual claim liabilities depend on inflation and changes in legal doctrines and damage awards. The division discounts claim liabilities at annual rates of four to seven percent. Contracted actuaries estimate claims and allocated and unallocated expenses, including legal expenses, which are incurred but not reported. They use the last 10 to 15 years of State claims data and the projected numbers of employees, payroll, vehicles, and other property. They forecast ultimate losses by line of coverage.

The changes in the Insurance Fund balances of aggregate claim liabilities for the years ended June 30, 2003 and 2002 (in thousands) are:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Increase in Claims or Estimate</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2003.....	\$ 64,620	\$ 38,380	\$ (31,766)	\$ 71,234
2002.....	53,814	37,667	(26,861)	64,620

The June 30, 2003 balance of claim liabilities is reported as claims and judgments payable in the Central Services Fund.

**B. SAIF Corporation Workers' Compensation Insurance.** The Legislature created SAIF Corporation to transact workers' compensation insurance and reinsurance business. SAIF Corporation is an independent public corporation, a component unit of the State, and the largest workers' compensation insurer in the State.

**State of Oregon**  
**Notes to the Financial Statements**

The financial activity for SAIF Corporation is discretely presented in the financial statements. The liability for claims and claim adjustment expenses is generally based on experience. This includes provision for reported claims, claims incurred but not reported, and claims that are currently closed but which experience indicates will be reopened. SAIF Corporation discounts certain indemnity claim reserves to their present value at a rate of 3.5 percent.

**C. Supplemental Workers' Compensation Insurance.** The Department of Consumer and Business Services operates several supplemental workers' compensation benefit programs. These are accounted for as special revenue funds. The primary program is the Retroactive Program, established by Oregon Revised Statute 656.506. It provides increased insurance benefits to claimants or their beneficiaries when current payment requirements exceed benefits in effect at the time of injury.

The Department of Consumer and Business Services determines the funding of supplemental workers' compensation insurance programs through cash flow projections. They use historical data and economic forecasts. Employer work hour assessments, contributions by employees, workers' compensation insurance premium assessments, investment, and interest earnings pay for the programs.

The changes in the balances of aggregate claim liabilities for supplemental workers' compensation insurance for the years ended June 30, 2003 and 2002 (in thousands) are:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Increase in Claims or Estimate</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2003.....	\$ 1,105,633	\$ -	\$ (49,114)	\$ 1,056,519
2002.....	1,111,724	-	(6,091)	1,105,633

Long-term liabilities were actuarially computed as of June 30, 2003, using the discounted cost valuation method. The discount rate for the Retroactive Program is 6.0 percent. This liability is reported as part of claims and judgments payable in the government-wide Statement of Net Assets.

## 16. DISCOUNTS AND ALLOWANCES IN PROPRIETARY FUNDS

Proprietary fund revenues, including discretely presented component units, are reported net of discounts and allowances in the accompanying financial statements. The following schedule summarizes discounts and allowances in proprietary funds for the year ended June 30, 2003 (in thousands):

### **Primary Government**

<u>Proprietary Funds</u>	<u>Type of Revenue</u>	<u>Amount</u>
Lottery Operations	Sales	\$ 1,542
Unemployment Compensation	Assessments	283
Unemployment Compensation	Fines and Forfeitures	(591)
University System	Charges for Services	31,830
Nonmajor Enterprise Funds	Charges for Services	55,702
Nonmajor Enterprise Funds	Sales	(16)
Nonmajor Enterprise Funds	Other	(75)
Internal Service Funds	Charges for Services	7
Internal Service Funds	Other	430
Total Primary Government		<u>\$ 89,112</u>

### **Discretely Presented Component Units**

<u>Component Units</u>	<u>Type of Revenue</u>	<u>Amount</u>
SAIF Corporation	Charges for Services	\$ 707
Oregon Health and Science University	Charges for Services	123,305
Oregon Health and Science University	Gifts, Grants and Contracts	(45)
Total Component Units		<u>\$ 123,967</u>

## 17. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments over \$5 million are included in total prior period adjustments in the accompanying financial statements:

Primary Government. Prior period adjustments of \$71.9 million were made to correct balances of capital assets that were incorrectly reported in prior years. An adjustment of \$13.7 million was made to correct errors in construction in progress from prior years.

### Governmental Funds

*General Fund.* An adjustment of \$30.3 million was made for expenditures that were incorrectly charged to the General Fund, but should have been charged to the Health and Social Services Fund in a prior year.

*Health and Social Services Fund.* An adjustment of \$30.3 million was made for expenditures that were incorrectly charged to the General Fund, but should have been charged to the Health and Social Services Fund in a prior year.

*Environmental Management Fund.* Beginning fund balance was restated by \$6.0 million for revenue that should have been recognized last fiscal year.

*Nonmajor Governmental Funds.* In the Consumer Protection Fund, an adjustment of \$11.6 million was made for activity that should have been reported in the Employment Services Fund in prior years. An adjustment of \$11.6 million was also made in the Employment Services Fund for this activity that was incorrectly reported in the Consumer Protection Fund. In the Capital Projects Fund, an adjustment of \$6.1 million was made to correct a revenue related error.

### Proprietary Funds

*Unemployment Compensation Fund.* To correct an error in federal revenue that should have been recognized in the prior year, an adjustment of \$8.5 million was made. In addition, an adjustment of \$38.1 million was made to correct an error in the accrual of employment taxes from the prior year.

*Nonmajor Enterprise Funds.* An adjustment of \$12.5 million was made in the State Hospitals Fund to correct errors in capital assets and related accumulated depreciation. In the Other Nonmajor Enterprise Funds, an adjustment of \$83.8 million was made to correct an error in capital asset balances reported last year.

## 18. COMMITMENTS

The State has made commitments that are to be funded with general funds, federal funds, lottery funds, or other fund resources. These commitments may take the form of grants, loans, or contracts for services. Commitments in effect as of June 30, 2003, and the anticipated sources of funding, are summarized in the following table (in thousands):

Purpose	General Funds	Federal Funds	Lottery Funds	Other Funds	Total
Community services contracts	\$356,780	\$518,191	\$ 3,722	\$ 21,575	\$ 900,268
Indigent defense contracts	61,684	-	-	-	61,684
Personal services contracts	17,675	21,493	-	5,481	44,649
Grant and loan commitments	-	139,666	18,842	150,977	309,485
Total	\$436,139	\$679,350	\$22,564	\$178,033	\$1,316,086

## 19. CONTINGENCIES

**A. *Litigation.*** The State is involved in certain legal proceedings that, if decided against the State, may require significant future expenditures or may impair future revenue sources. A significant legal claim pending against the State involves several trucking associations that have filed a complaint against the Department of Transportation alleging that the State's weight-mile tax system is unconstitutional. Part of the remedy sought is a refund of weight-mile taxes paid since January 1, 2000. It is difficult to predict the outcome of this case. However, the State intends to vigorously defend the suit and believes it has strong arguments to reduce or avoid any liability.

Other significant legal claims pending against the State challenge the legislative changes that were enacted to the Public Employees Retirement System (PERS) during the 2003 legislative session in House Bill 2001, House Bill 2003, and House Bill 2004. These claims seek to have the legislative changes made to PERS enjoined and/or declared a breach of contract, an unconstitutional impairment of contract, or an unconstitutional taking of property. Plaintiffs contend that the changes to PERS will result in reductions to the retirement benefits paid to PERS members.

The legislative bills included a statutory remedy to a prior case that was brought on behalf of certain local government employers challenging previous actions by the Public Employees Retirement Board (PERB), *City of Eugene v. State of Oregon*, in the event that decision is upheld on appeal. In that case, the trial court ruled that PERB had incorrectly calculated certain employer contribution rates, abused its discretion in distributing 1999 earnings to member accounts, misinterpreted certain governing statutes, and did not properly fund reserves, all of which led to some retirees receiving benefits in excess of what they should have received. House Bill 2003 provides that cost of living increases will not be paid to retirees until any erroneous benefit payments are made up. The bill also provides that any amounts erroneously paid are administrative expenses that may be charged to future earnings of non-retired members' accounts. The *City of Eugene* case has been appealed to the Oregon Supreme Court.

The State intends to vigorously defend these suits and has hired private counsel to handle the defense of the PERS legislation challenges. It is anticipated that it will take at least one year for these cases to be argued before and decided by the Oregon Supreme Court. It is currently unclear how much of the projected savings expected to be generated by House Bills 2001, 2003, and 2004 would actually be realized by the State if plaintiffs were to prevail on some or all of their claims under the *City of Eugene* case.

**B. *Debt Guarantees.*** Article XI-K of the Oregon Constitution authorizes the State to guarantee the general obligation bonded debt of Oregon school districts, community colleges, and education service districts. The Article authorizes the issuance of state general obligation bonds to satisfy the guarantee. Short-term borrowing from eligible state funds may also satisfy the guarantee. Ultimate responsibility for debt service payments remains the responsibility of the respective district, and the Treasurer will seek recovery if payments are made on behalf of any district. As of June 30, 2003, a total of \$1.4 billion in bonds was outstanding and guaranteed under these provisions.

**C. *Unemployment Benefits.*** State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Employment Department for benefit payments made to former employees. There appears to be no practical method of estimating the amount of future benefit payments, which may be made to former employees for wage credits earned prior to fiscal year end. Consequently, this potential obligation is not reported in the accompanying financial statements. Expenditures relating to these benefits for the year ended June 30, 2003, totaled approximately \$14.6 million.

**D. *Federal Issues.*** The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the State. Institutions of higher education and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Certain state agencies may not be in total compliance with these regulations. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements.

The State participates in federal funding related to the Medicare Upper Payment Limit (MUPL) provision of Medicaid. Currently, federal auditors are evaluating the State's compliance with regulations governing MUPL payments. Should they rule unfavorably regarding questioned costs totaling \$244 million, up to \$147 million in federal matching funds may be disallowed.

## 20. SUBSEQUENT EVENTS

**A. Bond Issues.** The following schedule summarizes bond issues that have occurred since July 1, 2003 (in thousands):

General Obligation Bonds

Department of Administrative Services .....	\$ 2,083,960
Housing and Community Services Department .....	2,930

Revenue Bonds

Housing and Community Services Department .....	\$ 5,675
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**B. Bond Calls.** The following schedule summarizes bond calls that have occurred since July 1, 2003 (in thousands):

General Obligation Bonds

Department of Environmental Quality .....	\$ 3,515
Oregon Department of Veterans' Affairs .....	50,245
Housing and Community Services Department .....	29,725

Revenue Bonds

Housing and Community Services Department .....	\$ 37,510
Oregon Economic and Community Development Department .....	500

**C. Certificate of Participation Issue.** On October 1, 2003, the Department of Administrative Services sold \$15.6 million of certificates of participation, 2003 Series B. The proceeds will be used to finance three projects: the renovation of existing buildings for the Oregon State Police, the second phase of implementation of the Oregon Budget Information Tracking System for the Department of Administrative Services, and the Warner Creek Correctional Facility for the Department of Corrections.

**D. Tax Anticipation Note Issue.** On October 22, 2003, the State sold \$741.7 million of full faith and credit Tax Anticipation Notes, 2003 Series A. The proceeds of these notes will be used to meet seasonal cash needs of the State and for cash management purposes within the 2003-2005 biennium.

**E. Refunding.** On September 23, 2003, the Department of Environmental Quality sold \$7.9 million refunding general obligation bonds, 2003 Series B. The State will use these proceeds to refund \$7.5 million of 1992 Series D and 1994 Series B bonds.

**F. Line of Credit.** On October 30, 2003, the Department of Forestry drew \$15.0 million on their line of credit to pay firefighting expenses.

**G. Debt Guarantees.** Under Article XI-K of the Oregon Constitution, \$80.2 million in bonds for various school districts were issued and guaranteed following the fiscal year ended June 30, 2003 as noted below (in thousands). Debt service payments remain the ultimate responsibility of the respective district.

Chemeketa Community College Refunding .....	\$ 34,615
Clackamas County School District No. 12 Refunding .....	12,930
Jackson County School District No. 4 Refunding .....	2,695
Multnomah County School District No. 10Jt Refunding .....	23,985
Lake County School District No. 14 Refunding .....	2,575
Yamhill County School District No. 40 Refunding .....	3,370

## **21. CHANGE IN ACCOUNTING PRINCIPLES**

During the fiscal year ended June 30, 2003, Oregon University System changed its method of accounting for buildings and related depreciation. Previously, one record existed for each building and depreciation was calculated on the original service date and original life of the asset regardless of the service dates of subsequent additions or improvements to that building. Beginning in fiscal year 2003, buildings may have one or more records relating to additions or improvements. Depreciation is calculated on the service date and anticipated life of each record. This change was made to more accurately reflect the estimated useful life of each asset. During the review of capital asset records, adjustments were made to the historical classifications of certain capital assets. The cumulative effect of this change in accounting principle was \$204.6 million.



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# ***Required Supplementary Information***

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## **Budgeted Appropriated Funds**

The State accounts for budgetary activities based on the source of monies used to pay expenditures. Separate appropriated funds are established for each funding source.

### **General Fund**

This fund accounts for expenditures made with general fund revenue. General fund revenue consists largely of personal and corporate income taxes.

### **Federal Funds**

This fund accounts for budgeted expenditures made with federal revenue.

### **Lottery Funds**

This fund accounts for expenditures made with lottery funds. These funds are earned by the State Lottery, and transferred to the Economic Development Fund at the Department of Administrative Services for disbursement to agencies where the funds are expended.

### **Other Funds**

This fund accounts for budgeted expenditures other than those funded by general, federal and lottery funds.

State of Oregon

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual - Budgetary (Non-GAAP) Basis -  
All Budgeted Appropriated Funds  
For the Biennium Ended June 30, 2003  
(In Thousands)**

	General Fund				
	2001-2003 Original Budget	2001-2003 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ Under
<b>Revenues:</b>					
Personal Income Taxes	\$ 9,445,296	\$ 7,744,027	\$ 3,547,569	\$ 4,023,578	\$ (172,880)
Corporate Income Taxes	859,535	403,855	195,180	224,892	16,217
Tobacco Taxes	123,754	117,394	60,891	56,953	450
Motor Fuels Taxes	-	-	-	-	-
Weight-Mile Taxes	-	-	-	-	-
Employer-Employee Taxes	-	-	-	-	-
Vehicle Registration Taxes	-	-	-	-	-
Other Taxes	173,382	232,642	118,121	105,709	(8,812)
Licenses and Fees	42,022	33,189	14,557	17,858	(774)
Federal	-	-	-	-	-
Charges for Services	6,124	6,127	3,109	3,016	(2)
Fines and Forfeitures	1,559	1,559	2,162	2,037	2,640
Rents and Royalties	382	382	168	55	(159)
Investment Income	70,500	21,131	16,379	29,384	24,632
Sales	1,894	1,894	1,525	8,856	8,487
Donations and Grants	-	-	1	2	3
Other	3,700	29,478	11,254	3,531	(14,693)
<b>Total Revenues</b>	<b>10,728,148</b>	<b>8,591,678</b>	<b>3,970,916</b>	<b>4,475,871</b>	<b>(144,891)</b>
<b>Expenditures:</b>					
Education	6,363,002	5,274,982	3,331,709	1,872,800	(70,473)
Human Resources	2,586,595	2,474,422	1,387,692	1,006,026	(80,704)
Public Safety	1,344,488	1,252,395	653,125	568,225	(31,045)
Economic and Community Development	29,613	18,246	12,291	5,246	(709)
Natural Resources	162,580	147,496	76,739	63,940	(6,817)
Transportation	20,111	17,325	9,372	7,723	(230)
Consumer and Business Services	12,411	11,620	5,744	5,566	(310)
Administration	154,444	153,466	74,914	74,109	(4,443)
Legislative	59,669	55,385	24,010	27,753	(3,622)
Judicial	412,436	378,340	269,394	101,562	(7,384)
<b>Total Expenditures</b>	<b>11,145,349</b>	<b>9,783,677</b>	<b>5,844,990</b>	<b>3,732,950</b>	<b>(205,737)</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(417,201)	(1,191,999)	(1,874,074)	742,921	60,846
<b>Other Financing Sources (Uses):</b>					
Transfers from Other Funds	1,134,856	1,096,798	612,843	469,474	(14,481)
Transfers to Other Funds	(808,063)	(755,232)	(393,082)	(367,897)	(5,747)
Long-term Debt Issued	-	412,683	-	412,683	-
Debt Issuance Premium	-	37,317	-	37,317	-
Debt Issuance Discount	-	-	-	-	-
Loan Proceeds	-	-	-	-	-
Gain(Loss) on Disposition of Equipment	-	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (90,408)	\$ (400,433)	(1,654,313)	1,294,498	\$ 40,618
<b>Budgetary Fund Balances - Beginning</b>			458,285	(1,154,063)	
Prior Period Adjustments			-	-	
Budgetary Fund Balances - Beginning - As Restated			458,285	(1,154,063)	
Prior Biennium Transactions			41,965	(823)	
<b>Budgetary Fund Balances - Ending</b>			\$ (1,154,063)	\$ 139,612	

**State of Oregon**

Federal Funds					Lottery Funds				
2001-2003 Original Budget	2001-2003 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)	2001-2003 Original Budget	2001-2003 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	116	123	239	-	-	-	-	-
6,213,382	6,582,792	2,843,384	3,160,710	(578,698)	-	-	-	-	-
-	-	50	34,892	34,942	-	-	45	12	57
-	-	8	74	82	-	-	-	-	-
-	-	406	424	830	-	-	-	-	-
-	-	516	235	751	34,222	23,044	6,880	6,481	(9,683)
-	-	277	323	600	-	-	-	-	-
-	-	739	518	1,257	-	-	3	-	3
-	-	54,216	27,615	81,831	-	-	288	59	347
6,213,382	6,582,792	2,899,712	3,224,914	(458,166)	34,222	23,044	7,216	6,552	(9,276)
824,518	891,740	440,844	338,324	(112,572)	355,816	679,488	29,608	648,178	(1,702)
4,364,909	4,829,414	2,281,675	2,367,868	(179,871)	7,145	5,897	2,679	3,183	(35)
168,382	183,846	61,155	71,776	(50,915)	4,722	4,857	1,582	2,823	(452)
379,727	426,357	172,335	203,691	(50,331)	102,059	84,869	34,077	39,438	(11,354)
180,321	217,456	69,168	84,399	(63,889)	112,242	119,360	37,192	56,399	(25,769)
69,553	69,775	23,561	22,875	(23,339)	20,200	10,202	9,999	110	(93)
1,495	1,556	752	488	(316)	-	-	-	-	-
4,497	5,037	2,789	2,084	(164)	534	381	-	276	(105)
-	-	-	-	-	-	-	-	-	-
871	2,106	579	554	(973)	-	-	-	-	-
5,994,273	6,627,287	3,052,858	3,092,059	(482,370)	602,718	905,054	115,137	750,407	(39,510)
219,109	(44,495)	(153,146)	132,855	24,204	(568,496)	(882,010)	(107,921)	(743,855)	30,234
26,760	28,082	4,354	5,085	(18,643)	895,077	950,237	565,462	454,917	70,142
(219,770)	(221,136)	(22,098)	(21,251)	177,787	(918,379)	(967,013)	(157,479)	(413,433)	396,101
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
\$ 26,099	\$ (237,549)	(170,890)	116,689	\$ 183,348	\$ (591,798)	\$ (898,786)	300,062	(702,371)	\$ 496,477
		3,131	(122,074)				307,758	536,030	
		-	-				-	(251)	
		3,131	(122,074)				307,758	535,779	
		45,685	1,051				(71,790)	-	
		\$ (122,074)	\$ (4,334)				\$ 536,030	\$ (166,592)	

(continued on next page)

State of Oregon

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual - Budgetary (Non-GAAP) Basis -  
All Budgeted Appropriated Funds  
For the Biennium Ended June 30, 2003  
(In Thousands)**

(continued from previous page)

	Other Funds				
	2001-2003 Original Budget	2001-2003 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ Under
<b>Revenues:</b>					
Personal Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Income Taxes	-	-	-	-	-
Tobacco Taxes	232,173	232,173	94,027	176,724	38,578
Motor Fuels Taxes	825,106	825,106	363,162	405,996	(55,948)
Weight-Mile Taxes	408,369	408,368	166,615	209,718	(32,035)
Employer-Employee Taxes	368,459	368,459	-	-	(368,459)
Vehicle Registration Taxes	-	-	102,071	120,426	222,497
Other Taxes	309,755	311,803	84,263	106,425	(121,115)
Licenses and Fees	771,623	772,338	206,391	219,879	(346,068)
Federal	639,009	639,009	236,313	386,350	(16,346)
Charges for Services	1,332,678	1,339,595	652,285	571,496	(115,814)
Fines and Forfeitures	159,862	159,862	20,122	21,730	(118,010)
Rents and Royalties	75,873	75,136	32,863	34,050	(8,223)
Investment Income	55,608	36,490	24,414	27,223	15,147
Sales	475,810	475,714	118,530	113,165	(244,019)
Donations and Grants	134,798	163,667	260,261	125,466	222,060
Other	3,174,753	3,494,939	446,142	356,087	(2,692,710)
<b>Total Revenues</b>	<b>8,963,876</b>	<b>9,302,659</b>	<b>2,807,459</b>	<b>2,874,735</b>	<b>(3,620,465)</b>
<b>Expenditures:</b>					
Education	1,479,547	1,797,814	546,473	762,900	(488,441)
Human Resources	1,033,238	1,309,629	513,663	668,747	(127,219)
Public Safety	489,640	629,251	189,521	243,434	(196,296)
Economic and Community Development	291,141	307,489	95,720	137,166	(74,603)
Natural Resources	542,428	659,520	252,104	297,169	(110,247)
Transportation	1,679,061	1,743,046	677,589	869,241	(196,216)
Consumer and Business Services	247,986	258,134	115,376	120,657	(22,101)
Administration	406,169	536,204	181,002	305,053	(50,149)
Legislative	3,057	5,794	1,126	4,021	(647)
Judicial	19,717	21,217	7,543	10,067	(3,607)
<b>Total Expenditures</b>	<b>6,191,984</b>	<b>7,268,098</b>	<b>2,580,117</b>	<b>3,418,455</b>	<b>(1,269,526)</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,771,892	2,034,561	227,342	(543,720)	(2,350,939)
<b>Other Financing Sources (Uses):</b>					
Transfers from Other Funds	2,600,277	2,522,874	1,836,492	2,347,010	1,660,628
Transfers to Other Funds	(8,529,265)	(9,005,954)	(2,080,872)	(1,923,765)	5,001,317
Long-term Debt Issued	1,084,805	1,235,791	331,452	241,158	(663,181)
Debt Issuance Premium	-	-	5,435	5,285	10,720
Debt Issuance Discount	-	-	(939)	-	(939)
Loan Proceeds	-	3,000	10,858	850	8,708
Gain(Loss) on Disposition of Equipment	-	-	1,104	1,641	2,745
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (2,072,291)	\$ (3,209,728)	330,872	128,459	\$ 3,669,059
<b>Budgetary Fund Balances - Beginning</b>			2,583,029	2,597,000	
Prior Period Adjustments			(4,543)	-	
Budgetary Fund Balances - Beginning - As Restated			2,578,486	2,597,000	
Prior Biennium Transactions			(312,358)	(95,224)	
<b>Budgetary Fund Balances - Ending</b>			\$ 2,597,000	\$ 2,630,235	

**State of Oregon**

Total All Budgeted Appropriated Funds					
	2001-2003	2001-2003	1st	2nd	Variance
	Original	Final	Year	Year	Over/
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>	<u>(Under)</u>
\$	9,445,296	\$ 7,744,027	\$ 3,547,569	\$ 4,023,578	\$ (172,880)
	859,535	403,855	195,180	224,892	16,217
	355,927	349,567	154,918	233,677	39,028
	825,106	825,106	363,162	405,996	(55,948)
	408,369	408,368	166,615	209,718	(32,035)
	368,459	368,459	-	-	(368,459)
	-	-	102,071	120,426	222,497
	483,137	544,445	202,384	212,134	(129,927)
	813,645	805,527	221,064	237,860	(346,603)
	6,852,391	7,221,801	3,079,697	3,547,060	(595,044)
	1,338,802	1,345,722	655,489	609,416	(80,817)
	161,421	161,421	22,292	23,841	(115,288)
	76,255	75,518	33,437	34,529	(7,552)
	160,330	80,665	48,189	63,323	30,847
	477,704	477,608	120,332	122,344	(234,932)
	134,798	163,667	261,004	125,986	223,323
	3,178,453	3,524,417	511,900	387,292	(2,625,225)
	25,939,628	24,500,173	9,685,303	10,582,072	(4,232,798)
	9,022,883	8,644,024	4,348,634	3,622,202	(673,188)
	7,991,887	8,619,362	4,185,709	4,045,824	(387,829)
	2,007,232	2,070,349	905,383	886,258	(278,708)
	802,540	836,961	314,423	385,541	(136,997)
	997,571	1,143,832	435,203	501,907	(206,722)
	1,788,925	1,840,348	720,521	899,949	(219,878)
	261,892	271,310	121,872	126,711	(22,727)
	565,644	695,088	258,705	381,522	(54,861)
	62,726	61,179	25,136	31,774	(4,269)
	433,024	401,663	277,516	112,183	(11,964)
	23,934,324	24,584,116	11,593,102	10,993,871	(1,997,143)
	2,005,304	(83,943)	(1,907,799)	(411,799)	(2,235,655)
	4,656,970	4,597,991	3,019,151	3,276,486	1,697,646
	(10,475,477)	(10,949,335)	(2,653,531)	(2,726,346)	5,569,458
	1,084,805	1,648,474	331,452	653,841	(663,181)
	-	37,317	5,435	42,602	10,720
	-	-	(939)	-	(939)
	-	3,000	10,858	850	8,708
	-	-	1,104	1,641	2,745
\$	(2,728,398)	\$ (4,746,496)	(1,194,269)	837,275	\$ 4,389,502
			3,352,203	1,856,893	
			(4,543)	(251)	
			3,347,660	1,856,642	
			(296,498)	(94,996)	
			\$ 1,856,893	\$ 2,598,921	

## 1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The State's budget is approved on a biennial basis, where the biennium begins July 1 and ends June 30 of each odd-numbered year. The Governor is required to submit budget recommendations to the Legislature no later than December 1 preceding the biennium. The Governor establishes priorities for the State based on function (i.e., Education, Human Resources, etc.) and the budget is summarized by these functions. Expenditures are budgeted based on the following revenue sources: General, Federal, Lottery, and Other.

The regular Legislative session begins in January of each odd-numbered year and lasts approximately six months. The budget is adopted by the Legislature's passage of separate appropriation bills and by the Governor's approval of those bills. The resulting approved appropriation bills become the appropriated budget for the State. Appropriation bills include one or more appropriations (budgeted expenditure items) which may be at the agency, program, or activity level. The Oregon Constitution requires the budget to be in balance at the end of each biennium. Because of this provision, the State may not budget a deficit and is required to alleviate any revenue shortfalls within each biennium.

Also included in the Governor's budget recommendations are legally authorized, nonappropriated budget items that are not legislatively limited by an appropriation bill. These nonlimited funds include other funds, federal funds, and other funds debt service. Spending plans for nonbudgeted financial activities, which are not included in the Governor's budget recommendations, are also established by agencies for certain expenditures to enhance fiscal control. These nonbudgeted items include federal funds and other funds.

During the interim period when the Legislature is not in session, the Legislative Emergency Board is authorized to amend the legally adopted budget. It authorizes and allocates all changes in funding and takes other actions to meet emergency needs when the Legislature is not in session. Emergency Board approval is required to authorize the transfer of expenditure authority between appropriations. Management can transfer between expenditure objects within an appropriation without Emergency Board approval.

The State does not budget by GAAP fund type. Appropriations may be at the agency, program, or activity level. Accordingly, the legal level of budgetary control is at one of these various levels depending on the Legislature's view of the activity. The Relational Standard Accounting and Reporting System (R\*STARS) controls expenditures by budgeted expenditure item as established in approved appropriation bills. Each item on an approved appropriation bill is assigned an appropriation number. Expenditures may not exceed appropriations. In R\*STARS, appropriated funds are tied to one or more appropriation numbers to ensure that appropriated expenditure amounts are not exceeded.

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" is not presented at the legal level of budgetary control. Such a presentation would be extremely cumbersome. To demonstrate compliance with the legal level of budgetary control, the State has prepared a separate report for the 2001-2003 biennium as of June 30, 2003. A copy of this report is available at the State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

Expenditures are monitored through the use of quarterly allotments. Allotments are required for appropriated and nonappropriated items and are used to establish spending limits. These spending limits are monitored by the Budget and Management Division of the Department of Administrative Services and are controlled by R\*STARS. Encumbrance accounting is used for additional budgetary control. Encumbrances represent commitments related to unperformed contracts for goods or services. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance. Under GAAP reporting, encumbrances outstanding at year end expected to be honored in the following year are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Unexpended appropriations at the end of each biennium are available for subsequent expenditure to the extent that encumbrances have been incurred at June 30, provided they are presented for payment during the succeeding six month "lapse period." Any remaining unexpended appropriations lapse December 31 following the end of the biennium. This does not apply to appropriations related to capital construction. Amounts for continuing contracts and contested claims are continuously appropriated.

**State of Oregon**  
**Notes to the Required Supplementary Information**

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The State does not formally budget revenues, with the exception of general fund revenues. While agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget. General fund revenues consist primarily of general taxes and other receipts that are paid into the general fund and are then available for appropriation by the Legislature. Revenues not recorded in the general fund consist of function specific revenues, which are credited by law to an appropriation to finance a specified program and segregated revenues that are paid into separate identifiable funds.

Budgets are prepared on the cash basis utilizing encumbrance accounting. The original budget amounts reported for revenues in the accompanying "Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" represent original estimates, while budgeted expenditures represent the first complete appropriated budget adopted by the Legislature. The final budget amounts reported for revenues represent revised estimates, while the final budget amounts reported for expenditures represent the original budget modified by legally authorized legislative and executive changes as well as Emergency Board actions taken during the year.

The major differences between Budgetary (Non-GAAP) basis and GAAP basis are:

1. Encumbrances are recorded as expenditures for budgetary purposes when purchase orders are issued.
2. Revenues are recognized when received in cash (budgetary) as opposed to when they are susceptible to accrual (GAAP).
3. Expenditures are recognized when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
4. Nonappropriated and nonbudgeted funds are not included in the budgetary schedule.
5. Timing differences occur because of a six-month lapse period between June 30 and December 31 of each odd-numbered year.

These different accounting principles may result in basis, perspective, entity, and timing differences in the excess (deficiency) of revenues and other sources of financial resources over (under) expenditures and other uses of financial resources. A reconciliation of these differences is presented in the notes to required supplementary information (Note 2).

R\*STARS establishes the following budgeted appropriated funds to account for the State's budgetary activities: General Fund, Federal Funds, Lottery Funds, and Other Funds.

**State of Oregon**  
**Notes to the Required Supplementary Information**

## 2. BUDGETARY BASIS TO GAAP BASIS RECONCILIATION

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP Basis) - All Budgeted Appropriated Funds" presents comparisons of the legally approved budget (more fully described in Note 1) with actual data on a budgetary basis.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A reconciliation of the resulting differences in excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses for the year ended June 30, 2003 is presented below. Governmental funds are reconciled to the net change in fund balances. Proprietary funds and fiduciary fund types are reconciled to the change in net assets.

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (in thousands)									
Budgetary Balances Classified into GAAP Fund Structure									
<u>GAAP Fund</u>	<u>Budgetary Fund</u>	<u>Budgeted Federal Funds</u>	<u>Budgeted Lottery Funds</u>	<u>Budgeted Other Funds</u>	<u>Total Budgeted Funds</u>	<u>Timing Differences</u>	<u>Basis Differences</u>	<u>Non- Budgeted Funds</u>	<u>GAAP Balances</u>
General	1,294,498	-	-	-	1,294,498	(86,286)	(94,390)	(72,066)	1,041,756
Health & Social Services	-	41,252	(1,336)	(202,792)	(162,876)	(784)	(2,602)	(66,851)	(233,113)
Public Transportation	-	(182)	-	(450)	(632)	-	(19,182)	755	(19,059)
Environmental Management	-	(6,327)	(8,166)	(113)	(14,606)	12,618	51,783	11,683	61,478
Educational Support	-	80,475	(628,670)	269,746	(278,449)	(96,644)	228,495	(2,769)	(149,367)
Nonmajor Governmental	-	1,471	(63,006)	(31,210)	(92,745)	(26,255)	(214,409)	120,661	(212,748)
Housing & Community Services	-	-	-	(1,395)	(1,395)	-	545	9,032	8,182
Veterans' Loan	-	-	-	(9,701)	(9,701)	48	(236)	5,941	(3,948)
Lottery Operations	-	-	-	-	-	-	-	429	429
Unemployment Compensation	-	-	-	-	-	-	-	(241,366)	(241,366)
University System	-	-	-	115,234	115,234	(69,161)	(46,073)	51,850	51,850
Nonmajor Proprietary	-	-	(1,193)	(1,938)	(3,131)	(2,651)	(9,460)	53,025	37,783
Internal Service	-	-	-	9,573	9,573	(14,355)	25,241	(59,014)	(38,555)
Pension Trust	-	-	-	(22,575)	(22,575)	981	1,374	2,460,542	2,440,322
Private Purpose Trust	-	-	-	4,080	4,080	87	19,690	(38,391)	(14,534)
Investment Trust	-	-	-	-	-	-	-	(146,323)	(146,323)
Totals (Memo Only)	1,294,498	116,689	(702,371)	128,459	837,275	(282,402)	(59,224)	2,087,138	2,582,787





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# ***Combining Fund Financial Statements***

## **Nonmajor Governmental Funds**

### **Special Revenue Funds**

Special Revenue Funds account for the proceeds of specific revenue sources, other than for major capital projects, that finance specified activities as required by law or administrative regulations.

#### **Agricultural Resources Fund**

This fund accounts for programs related to the promotion, inspection, and regulation of the State's agricultural industry. Funding for these programs comes from licenses and fees, charges for services, and federal grants.

#### **Business Development Fund**

This fund is used to account for programs that expand existing businesses as well as attract and promote new businesses. Employer and employee taxes, federal grants, and revenue bond proceeds are the main funding sources for these programs.

#### **Community Protection Fund**

This fund accounts for a variety of activities that help to ensure the safety of the State's citizens and their property through the courts, police, military, and correctional facilities. The main funding sources for these programs are federal grants, fines, and charges for services provided to state wards.

#### **Consumer Protection Fund**

This fund is used to account for programs that regulate existing businesses and license various professionals and organizations. Funding is generated mainly from public utilities taxes and business license fees.

#### **Employment Services Fund**

This fund accounts for programs that provide workers with a safe and secure workplace. Funding for these employment related programs comes from federal grants, employer and employee taxes, and other taxes.

#### **Nutritional Support Fund**

This fund accounts for programs to improve the diets of low-income households and school children. Federal grants are the main source of revenue for these programs.

#### **Residential Assistance Fund**

This fund accounts for programs that help to meet the housing and energy needs of low-income Oregonians. Major funding comes from federal grants, senior citizen property tax repayments, and public utilities taxes.

#### **Other Special Revenue Funds**

This fund accounts for a variety of small programs that are funded mainly by federal grants and charges for services.

## **Debt Service Funds**

Debt Service Funds account for the accumulation of resources for the payment of interest and principal on long-term obligations.

### **Revenue Bond Fund**

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term revenue bonds not reported in proprietary funds. The portion of these bonds not self-supporting is funded by a legislative appropriation.

### **Certificates of Participation Fund**

This fund accounts for the accumulation of resources for the payment of principal and interest on certificates of participation not reported in proprietary funds. Debt service requirements are funded by a legislative appropriation.

### **General Obligation Bond Fund**

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general obligation bonds not reported in the general fund or in proprietary funds. The issuance of general obligation debt is authorized in the Oregon constitution. The portion of these bonds not self-supporting is funded by a legislative appropriation.

### **General Appropriation Bond Fund**

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general appropriation bonds not reported in the general fund or in proprietary funds. The issuance of general appropriation bonds was authorized by the Oregon Legislature. Debt service requirements are funded by a legislative appropriation.

## **Capital Projects Fund**

The capital projects fund is used to account for financial resources, other than general funds, segregated for the construction or acquisition of major capital facilities.

## **Permanent Funds**

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the State's programs.

### **Education Endowment Fund**

The activity formerly reported in this fund is now reported in the Educational Support Fund. The Education Endowment Fund was changed to the Education Stability Fund, in which both principal and interest may be spent.

### **Housing Guarantee Fund**

This fund is used to guarantee repayment of loans made to finance the construction, acquisition, or rehabilitation of low-income housing. Earnings on the principal balance are used to expand the State's supply of housing for low-income families and individuals such as persons over 65 years of age, disabled persons, farm workers, and Native Americans.

### **Other Permanent Funds**

This fund is used to account for the principal and related interest income of a variety of small programs. The interest income provides funding for programs such as the upkeep on county fairgrounds and fish hatcheries, scholarship funds for injured workers, special library book purchases, and homes for the developmentally disabled.

**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2003**  
**(In Thousands)**

	<b>Special Revenue Funds</b>		
	<b><u>Agricultural Resources</u></b>	<b><u>Business Development</u></b>	<b><u>Community Protection</u></b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 12,064	\$ 114,643	\$ 67,525
Investments	-	981	3,978
Cash and Securities Held in Trust	-	-	-
Securities Lending Cash Collateral	-	41,631	6,792
Accounts and Interest Receivable (net)	2,805	1,991	24,850
Taxes Receivable	-	4,614	-
Due from Other Funds	1,027	94,904	4,915
Inventories	211	18	309
Prepaid Items	20	113	-
Net Contracts, Notes and Other Receivables	-	113	209,407
Loans Receivable	-	16	-
<b>Total Assets</b>	<b>\$ 16,127</b>	<b>\$ 259,024</b>	<b>\$ 317,776</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts and Interest Payable	\$ 736	\$ 2,714	\$ 19,884
Obligations Under Securities Lending	-	41,631	6,792
Due to Other Funds	23	86,069	15,852
Due to Other Governments	-	5,951	2,364
Matured Bonds/COPS and Coupons Payable	-	-	-
Advances from Other Funds	-	112	-
Trust Funds Payable	567	4	149
Deferred Revenue	893	4,125	209,806
<b>Total Liabilities</b>	<b>2,219</b>	<b>140,606</b>	<b>254,847</b>
Fund Balances:			
Reserved for Encumbrances	155	-	1,023
Reserved for Inventories	211	18	309
Reserved for Loans Receivable	-	16	-
Reserved for Other Long-term Receivables	-	-	-
Reserved for Prepaid Items	20	113	-
Reserved for Debt Service	-	-	-
Reserved for Permanent Fund Principal	-	-	-
Reserved for Claims and Judgments Payable	-	-	-
Reserved for Revolving Accounts	76	-	84
Unreserved, Undesignated	13,446	118,271	61,513
<b>Total Fund Balances</b>	<b>13,908</b>	<b>118,418</b>	<b>62,929</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 16,127</b>	<b>\$ 259,024</b>	<b>\$ 317,776</b>

Special Revenue Funds

<u>Consumer Protection</u>	<u>Employment Services</u>	<u>Nutritional Support</u>	<u>Residential Assistance</u>	<u>Other</u>
\$ 89,940	\$ 118,806	\$ 5,394	\$ 62,506	\$ 78,715
-	141,928	-	-	3
2,230	-	-	-	-
37,015	24,323	-	4,121	-
1,290	86,921	8,162	5,744	649
-	-	-	-	-
493	8,400	-	587	4,612
104	3,777	450	133	512
41	242	-	4	14
311	11,934	-	55	-
-	-	-	96,283	-
<u>\$ 131,424</u>	<u>\$ 396,331</u>	<u>\$ 14,006</u>	<u>\$ 169,433</u>	<u>\$ 84,505</u>
\$ 2,082	\$ 38,896	\$ 5,980	\$ 3,607	\$ 1,015
37,015	24,323	-	4,121	-
2,222	16,563	3	228	69
6,273	1,926	4,657	2,792	-
-	-	-	-	-
-	1,108	-	50,981	154
2,275	-	-	-	22
311	12,991	231	2,105	-
<u>50,178</u>	<u>95,807</u>	<u>10,871</u>	<u>63,834</u>	<u>1,260</u>
509	1,916	-	448	502
104	3,777	450	133	512
-	-	-	96,283	-
-	-	-	-	-
41	242	-	4	14
-	-	-	-	-
-	-	-	-	-
-	173,733	-	-	-
9	102	-	-	-
80,583	120,754	2,685	8,731	82,217
<u>81,246</u>	<u>300,524</u>	<u>3,135</u>	<u>105,599</u>	<u>83,245</u>
<u>\$ 131,424</u>	<u>\$ 396,331</u>	<u>\$ 14,006</u>	<u>\$ 169,433</u>	<u>\$ 84,505</u>

(continued on next page)

**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2003**  
**(In Thousands)**  
(continued from previous page)

	<b>Debt Service Funds</b>			
	<b>Revenue Bond</b>	<b>Certificates of Participation</b>	<b>General Obligation Bond</b>	<b>General Appropriation Bond</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 17,276	\$ 243	\$ 2,301	\$ -
Investments	55,280	-	2,431	17,274
Cash and Securities Held in Trust	-	-	-	-
Securities Lending Cash Collateral	-	-	-	-
Accounts and Interest Receivable (net)	11	-	19	252
Taxes Receivable	-	-	-	-
Due from Other Funds	54,414	14	-	-
Inventories	-	-	-	-
Prepaid Items	-	-	-	-
Net Contracts, Notes and Other Receivables	-	-	-	-
Loans Receivable	-	-	-	-
<b>Total Assets</b>	<b>\$ 126,981</b>	<b>\$ 257</b>	<b>\$ 4,751</b>	<b>\$ 17,526</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts and Interest Payable	\$ 84	\$ 1	\$ -	\$ -
Obligations Under Securities Lending	-	-	-	-
Due to Other Funds	1,624	-	1,942	-
Due to Other Governments	-	-	-	-
Matured Bonds/COPS and Coupons Payable	-	-	89	-
Advances from Other Funds	-	157	-	-
Trust Funds Payable	-	5	-	-
Deferred Revenue	-	-	-	-
<b>Total Liabilities</b>	<b>1,708</b>	<b>163</b>	<b>2,031</b>	<b>-</b>
Fund Balances:				
Reserved for Encumbrances	-	-	-	-
Reserved for Inventories	-	-	-	-
Reserved for Loans Receivable	-	-	-	-
Reserved for Other Long-term Receivables	-	-	-	-
Reserved for Prepaid Items	-	-	-	-
Reserved for Debt Service	125,273	94	2,720	17,526
Reserved for Permanent Fund Principal	-	-	-	-
Reserved for Claims and Judgments Payable	-	-	-	-
Reserved for Revolving Accounts	-	-	-	-
Unreserved, Undesignated	-	-	-	-
<b>Total Fund Balances</b>	<b>125,273</b>	<b>94</b>	<b>2,720</b>	<b>17,526</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 126,981</b>	<b>\$ 257</b>	<b>\$ 4,751</b>	<b>\$ 17,526</b>

State of Oregon

<b>Capital Projects Fund</b>	<b>Permanent Funds</b>			
	<b>Education Endowment</b>	<b>Housing Guarantee</b>	<b>Other</b>	<b>Total</b>
\$ 17,066	\$ -	\$ 15,500	\$ 9,687	\$ 611,666
18,518	-	-	-	240,393
-	-	-	-	2,230
-	-	2,024	-	115,906
322	-	-	-	133,016
-	-	-	-	4,614
803	-	-	-	170,169
-	-	-	-	5,514
-	-	-	-	434
1,476	-	-	-	223,296
-	-	-	-	96,299
<u>\$ 38,185</u>	<u>\$ -</u>	<u>\$ 17,524</u>	<u>\$ 9,687</u>	<u>\$ 1,603,537</u>
\$ 1,119	\$ -	\$ -	\$ 173	\$ 76,291
-	-	2,024	-	115,906
-	-	-	3	124,598
-	-	-	-	23,963
-	-	-	-	89
-	-	-	-	52,512
-	-	-	207	3,229
209	-	-	-	230,671
<u>1,328</u>	<u>-</u>	<u>2,024</u>	<u>383</u>	<u>627,259</u>
3,308	-	-	24	7,885
-	-	-	-	5,514
-	-	-	-	96,299
1,476	-	-	-	1,476
-	-	-	-	434
-	-	-	-	145,613
-	-	15,500	5,405	20,905
-	-	-	-	173,733
-	-	-	-	271
32,073	-	-	3,875	524,148
<u>36,857</u>	<u>-</u>	<u>15,500</u>	<u>9,304</u>	<u>976,278</u>
<u>\$ 38,185</u>	<u>\$ -</u>	<u>\$ 17,524</u>	<u>\$ 9,687</u>	<u>\$ 1,603,537</u>

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2003**  
(In Thousands)

	<b>Special Revenue Funds</b>		
	<b><u>Agricultural Resources</u></b>	<b><u>Business Development</u></b>	<b><u>Community Protection</u></b>
<b>Revenues:</b>			
Employer-Employee Taxes	\$ -	\$ 163,015	\$ -
Other Taxes	523	8,580	-
Licenses and Fees	12,544	2,084	9,702
Federal	4,442	15,001	89,156
Charges for Services	5,768	677	17,711
Fines and Forfeitures	56	32	79,853
Rents and Royalties	-	-	1,417
Investment Income	183	3,196	569
Sales	29	1,080	2,765
Donations and Grants	1	48	704
Other	1,184	2,033	10,681
<b>Total Revenues</b>	<b>24,730</b>	<b>195,746</b>	<b>212,558</b>
<b>Expenditures:</b>			
Current:			
Education	-	-	-
Human Resources	-	-	2,187
Public Safety	-	1,820	196,233
Economic and Community Development	-	49,096	-
Natural Resources	31,084	164	-
Transportation	-	-	7,733
Consumer and Business Services	-	364	-
Administration	-	189,951	8,953
Legislative	-	-	-
Judicial	-	-	31,538
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	-	-	709
Interest	-	10	39
Other Debt Service	-	972	69
<b>Total Expenditures</b>	<b>31,084</b>	<b>242,377</b>	<b>247,461</b>
Excess (Deficiency) of Revenues Over (Under)			
Expenditures	(6,354)	(46,631)	(34,903)
<b>Other Financing Sources (Uses):</b>			
Transfers from Other Funds	4,270	382,221	69,557
Transfers to Other Funds	-	(439,804)	(43,164)
Long-Term Debt Issued	-	106,409	22
Debt Issuance Premium	-	9	43
Refunded Debt Payment to Escrow Agent	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>4,270</b>	<b>48,835</b>	<b>26,458</b>
Net Change in Fund Balances	(2,084)	2,204	(8,445)
Fund Balances - Beginning	15,968	115,977	71,036
Prior Period Adjustments	(4)	246	295
Fund Balances - Beginning - As Restated	15,964	116,223	71,331
Change in Reserve for Inventories	28	(9)	43
<b>Fund Balances - Ending</b>	<b>\$ 13,908</b>	<b>\$ 118,418</b>	<b>\$ 62,929</b>



**State of Oregon**

**Special Revenue Funds**

<b><u>Consumer Protection</u></b>	<b><u>Employment Services</u></b>	<b><u>Nutritional Support</u></b>	<b><u>Residential Assistance</u></b>	<b><u>Other</u></b>
\$ -	\$ 88,234	\$ -	\$ -	\$ -
89,065	62,238	-	25,618	-
60,630	1,572	-	510	-
287	226,255	498,039	97,821	66,579
1,321	15,789	2,590	1,633	10,344
623	3,224	-	67	1
-	-	-	-	634
1,099	25,209	17	6,853	296
67	148	2	-	830
150	-	-	356	2,142
560	1,505	12,189	155	680
153,802	424,174	512,837	133,013	81,506
1,589	66,459	106,353	-	-
-	-	404,688	-	-
-	-	-	-	-
-	139,470	935	124,641	2,056
2,346	-	-	708	-
-	-	-	-	-
122,179	131,376	-	4,503	-
29,939	753	20	119	41,135
-	-	-	-	2,386
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	24,000	2
-	1	-	62	3,650
156,053	338,059	511,996	154,033	49,229
(2,251)	86,115	841	(21,020)	32,277
15,430	20,467	-	1,042	28,059
(8,799)	(74,703)	(67)	(1,290)	(3,925)
-	-	-	5,488	5,890
-	-	-	11	205
-	-	-	-	-
6,631	(54,236)	(67)	5,251	30,229
4,380	31,879	774	(15,769)	62,506
88,204	257,194	2,356	120,353	20,708
(11,069)	11,602	-	883	123
77,135	268,796	2,356	121,236	20,831
(269)	(151)	5	132	(92)
\$ 81,246	\$ 300,524	\$ 3,135	\$ 105,599	\$ 83,245

(continued on next page)

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2003**  
**(In Thousands)**  
(continued from previous page)

	<b>Debt Service Funds</b>			
	<b>Revenue Bond</b>	<b>Certificates of Participation</b>	<b>General Obligation Bond</b>	<b>General Appropriation Bond</b>
<b>Revenues:</b>				
Employer-Employee Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	-	-	-
Licenses and Fees	-	-	-	-
Federal	-	187	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Rents and Royalties	-	-	-	-
Investment Income	3,951	233	123	141
Sales	-	-	-	-
Donations and Grants	-	-	-	-
Other	-	-	-	-
<b>Total Revenues</b>	<b>3,951</b>	<b>420</b>	<b>123</b>	<b>141</b>
<b>Expenditures:</b>				
Current:				
Education	-	-	-	-
Human Resources	-	-	-	-
Public Safety	-	-	-	-
Economic and Community Development	-	-	-	-
Natural Resources	-	-	-	-
Transportation	-	-	-	-
Consumer and Business Services	-	-	-	-
Administration	-	-	-	-
Legislative	-	-	-	-
Judicial	-	-	-	-
Capital Improvements and Capital Construction	-	-	-	-
Debt Service:				
Principal	53,166	22,036	2,772	-
Interest	35,419	30,577	3,144	-
Other Debt Service	1	2	1	-
<b>Total Expenditures</b>	<b>88,586</b>	<b>52,615</b>	<b>5,917</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(84,635)	(52,195)	(5,794)	141
<b>Other Financing Sources (Uses):</b>				
Transfers from Other Funds	118,597	15,633	2,123	-
Transfers to Other Funds	(16,137)	(1,790)	(21)	-
Long-Term Debt Issued	-	-	1,677	15,943
Debt Issuance Premium	-	-	304	1,442
Refunded Debt Payment to Escrow Agent	(502)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>101,958</b>	<b>13,843</b>	<b>4,083</b>	<b>17,385</b>
<b>Net Change in Fund Balances</b>	<b>17,323</b>	<b>(38,352)</b>	<b>(1,711)</b>	<b>17,526</b>
Fund Balances - Beginning	107,950	38,391	4,431	-
Prior Period Adjustments	-	55	-	-
Fund Balances - Beginning - As Restated	107,950	38,446	4,431	-
Change in Reserve for Inventories	-	-	-	-
<b>Fund Balances - Ending</b>	<b>\$ 125,273</b>	<b>\$ 94</b>	<b>\$ 2,720</b>	<b>\$ 17,526</b>

State of Oregon

Capital Projects Fund		Permanent Funds			
Capital Projects	Education Endowment	Housing Guarantee	Other	Total	
\$ -	\$ -	\$ -	\$ -	\$ 251,249	
-	-	-	-	186,024	
-	-	-	-	87,042	
3,174	-	-	-	1,000,941	
-	-	-	-	55,833	
-	-	-	-	83,856	
-	-	-	-	2,051	
397	-	263	303	42,833	
-	-	-	-	4,921	
45	-	-	26	3,472	
604	-	-	18	29,609	
4,220	-	263	347	1,747,831	
-	-	-	-	174,401	
-	-	-	3,732	410,607	
-	-	-	-	198,053	
-	-	-	-	316,198	
-	-	-	281	34,583	
-	-	-	-	7,733	
-	-	-	5	258,427	
-	-	-	-	270,870	
-	-	-	-	2,386	
-	-	-	-	31,538	
63,726	-	-	-	63,726	
-	-	-	-	78,683	
-	-	-	-	93,191	
-	-	-	-	4,758	
63,726	-	-	4,018	1,945,154	
(59,506)	-	263	(3,671)	(197,323)	
16,015	-	-	2,000	675,414	
(14,260)	(240,758)	(263)	-	(844,981)	
16,957	-	-	-	152,386	
244	-	-	-	2,258	
-	-	-	-	(502)	
18,956	(240,758)	(263)	2,000	(15,425)	
(40,550)	(240,758)	-	(1,671)	(212,748)	
68,143	240,758	15,500	13,101	1,180,070	
9,264	-	-	(2,126)	9,269	
77,407	240,758	15,500	10,975	1,189,339	
-	-	-	-	(313)	
\$ 36,857	\$ -	\$ 15,500	\$ 9,304	\$ 976,278	

## **Nonmajor Enterprise Funds**

Enterprise Funds account for goods and services provided to the general public on a continuous basis, either when all or most of the cost involved in operating the enterprise is intended to be financed from user charges, or when periodic measurement of the results of operations is appropriate for management control or accountability.

### **Energy Loan Fund**

This fund accounts for activities to provide low-interest loans for renewable energy resource and energy conservation projects. Funding is from the issuance of bonds that are repaid from the interest and principal payments on loans.

### **Water Resources Fund**

This fund accounts for activities to provide low-interest loans for irrigation, drainage, and water systems projects for small municipalities. Capital for this fund is provided from general obligation bonds that are repaid by borrowers.

### **Business Development Fund**

This fund accounts for resources used to finance land, buildings, machinery, and permanent working capital for eligible activities including those determined to diversify an economic base.

### **Special Public Works Fund**

This fund accounts for loans and grants to local governments for construction of infrastructure required to support needed public services. The Special Public Works Fund is financed through lottery resources, the sale of revenue bonds, loan repayments, and interest earnings.

### **State Hospitals Fund**

This fund accounts for the operations of State hospitals and State operated residential group homes that provide treatment services for specific citizens as well as training and care for developmentally disabled persons. Clinical programs include the adult psychiatric program, the child and adolescent treatment program, the forensic and correctional treatment program, and the geropsychiatric treatment and medical service program.

### **Liquor Control Fund**

This fund accounts for the operation of the Oregon Liquor Control Commission that regulates the sale and use of alcoholic beverages and promotes responsible alcohol use.

### **Veterans' Home Fund**

This fund accounts for activities of the Oregon Veterans' Home, which provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans.

### **Water Fund**

This fund accounts for loans and grants to municipalities to improve compliance with federal and State of Oregon water quality standards. The Water Fund is financed through lottery resources, the sale of revenue bonds, loan repayments, and interest earnings.

**Other Enterprise Funds**

This fund is used to account for the sale of goods and services to other than governmental entities through activities not specifically accounted for in another enterprise fund. This includes programs within the following state agencies: the Department of Administrative Services, Legislative Administration Committee, the Judicial Department, the Housing, Educational and Cultural Facilities Authority, the State Fair and Exposition Center, the Oregon State Treasury, the Department of Corrections, Oregon Corrections Enterprises, the Department of Forestry, the Department of Transportation, and the Oregon Economic and Community Development Department.

**Combining Balance Sheet**  
**Nonmajor Enterprise Funds**  
**June 30, 2003**  
**(In Thousands)**

	<u>Energy Loan</u>	<u>Water Resources</u>	<u>Business Development</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 112	\$ 3,319	\$ 6,437
Cash and Cash Equivalents - Restricted	86	163	-
Investments	-	-	-
Securities Lending Cash Collateral	-	-	-
Accounts and Interest Receivable (net)	1,710	9	57
Due from Other Funds	-	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
Total Current Assets	1,908	3,491	6,494
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	49,035	-	-
Investments - Restricted	-	-	-
Deferred Charges	390	-	-
Advances to Other Funds	19,623	-	-
Net Contracts, Notes and Other Receivables	-	-	-
Loans Receivable	101,794	859	13,598
Capital Assets:			
Land	-	-	-
Buildings, Property and Equipment	-	-	-
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Historical Treasures	-	-	-
Less Accumulated Depreciation and Amortization	-	-	-
Total Noncurrent Assets	170,842	859	13,598
<b>Total Assets</b>	<b>\$ 172,750</b>	<b>\$ 4,350</b>	<b>\$ 20,092</b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts and Interest Payable	\$ 3,514	\$ 6	\$ 10
Obligations Under Securities Lending	-	-	-
Due to Other Funds	-	-	1
Due to Other Governments	-	-	-
Matured Bonds/COPS and Coupons Payable	86	163	-
Obligations Under Capital Lease	-	-	-
Bonds/COPS Payable	12,430	415	-
Trust Funds Payable	3,577	-	-
Deferred Revenue	-	-	2
Compensated Absences Payable	46	-	16
Total Current Liabilities	19,653	584	29
Noncurrent Liabilities:			
Bonds/COPS Payable	135,933	1,640	-
Obligations Under Capital Lease	-	-	-
Arbitrage Rebate Payable	278	-	-
Trust Funds Payable	-	-	-
Advances from Other Funds	-	-	-
Total Noncurrent Liabilities	136,211	1,640	-
Total Liabilities	155,864	2,224	29
Net Assets:			
Invested in Capital Assets, Net of Related Debt	-	-	-
Restricted for Debt Service	16,886	2,126	-
Restricted for Capital Construction	-	-	-
Restricted for Transportation	-	-	-
Restricted for Public Works Projects	-	-	-
Unrestricted	-	-	20,063
Total Net Assets	16,886	2,126	20,063
<b>Total Liabilities and Net Assets</b>	<b>\$ 172,750</b>	<b>\$ 4,350</b>	<b>\$ 20,092</b>

State of Oregon

<u>Special Public Works</u>	<u>State Hospitals</u>	<u>Liquor Control</u>	<u>Veterans' Home</u>	<u>Water</u>	<u>Other</u>	<u>Total</u>
\$ 22,510	\$ 2,449	\$ 16,272	\$ 479	\$ 6,590	\$ 42,441	\$ 100,609
-	-	-	-	-	-	249
-	4	-	-	-	-	4
-	-	-	63	-	-	63
4,803	2,840	38	407	1,910	3,258	15,032
-	1,532	-	-	-	1,610	3,142
-	517	11,710	-	-	9,481	21,708
-	205	44	1	-	24	274
27,313	7,547	28,064	950	8,500	56,814	141,081
40,430	-	-	-	43,802	3,234	136,501
4,107	-	-	-	1,088	2,120	7,315
1,486	-	-	-	641	263	2,780
-	-	-	-	100	-	19,723
-	-	-	4	-	-	4
166,422	-	-	-	58,185	50,473	391,331
-	73	59	600	-	3,385	4,117
-	58,153	12,151	12,531	-	27,631	110,466
-	-	-	-	-	6,290	6,290
-	1,044	-	-	-	281	1,325
-	-	-	40	-	-	40
-	(29,605)	(5,711)	(1,879)	-	(18,995)	(56,190)
212,445	29,665	6,499	11,296	103,816	74,682	623,702
\$ 239,758	\$ 37,212	\$ 34,563	\$ 12,246	\$ 112,316	\$ 131,496	\$ 764,783
\$ 3,401	\$ 1,285	\$ 8,543	\$ 411	\$ 1,460	\$ 2,194	\$ 20,824
-	-	-	63	-	-	63
-	339	6,495	-	-	1	6,836
355	-	-	-	868	20	1,243
-	-	-	-	-	-	249
-	-	-	-	-	9	9
5,620	-	-	-	2,405	2,115	22,985
775	14	-	1	1,766	26	6,159
-	-	890	-	-	4	896
30	5,484	729	14	17	757	7,093
10,181	7,122	16,657	489	6,516	5,126	66,357
117,919	-	-	-	53,786	37,143	346,421
-	-	-	-	-	26	26
-	-	-	-	-	50	328
395	-	-	-	385	-	780
-	1,122	-	-	-	1,727	2,849
118,314	1,122	-	-	54,171	38,946	350,404
128,495	8,244	16,657	489	60,687	44,072	416,761
-	29,665	6,499	11,292	-	74,089	121,545
3,776	-	-	-	717	-	23,505
-	-	-	-	-	9,095	9,095
-	-	-	-	-	19,528	19,528
59,424	-	-	-	38,326	8,318	106,068
48,063	(697)	11,407	465	12,586	(23,606)	68,281
111,263	28,968	17,906	11,757	51,629	87,424	348,022
\$ 239,758	\$ 37,212	\$ 34,563	\$ 12,246	\$ 112,316	\$ 131,496	\$ 764,783

**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2003**  
(In Thousands)

	<u>Energy Loan</u>	<u>Water Resources</u>	<u>Business Development</u>
<b>Operating Revenues:</b>			
Other Taxes	\$ -	\$ -	\$ -
Licenses and Fees	22	-	-
Federal	-	-	-
Charges for Services	453	6	30
Fines and Forfeitures	24	-	-
Rents and Royalties	-	-	-
Sales	-	-	-
Loan Interest Income	9,144	99	879
Investment Income	665	30	98
Gifts, Grants and Contracts	-	-	-
Other	16	-	3
Total Operating Revenues	<u>10,324</u>	<u>135</u>	<u>1,010</u>
<b>Operating Expenses:</b>			
Salaries and Wages	650	60	268
Services and Supplies	566	28	91
Cost of Goods Sold	-	-	-
Distributions to Other Governments	-	-	-
Special Payments	-	-	-
Bond and COP Interest	7,872	133	-
Other Debt Service	-	-	-
Depreciation and Amortization	-	-	-
Bad Debt Expense	30	-	400
Total Operating Expenses	<u>9,118</u>	<u>221</u>	<u>759</u>
Operating Income (Loss)	<u>1,206</u>	<u>(86)</u>	<u>251</u>
<b>Nonoperating Revenues (Expenses):</b>			
Gain (Loss) on Disposition of Assets	-	-	-
Loan Interest Expense	-	-	-
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	1,206	(86)	251
Transfers from Other Funds	-	-	-
Transfers to Other Funds	-	(26)	(150)
Change in Net Assets	<u>1,206</u>	<u>(112)</u>	<u>101</u>
Net Assets - Beginning	15,680	2,238	19,962
Prior Period Adjustments	-	-	-
Net Assets - Beginning - As Restated	<u>15,680</u>	<u>2,238</u>	<u>19,962</u>
<b>Net Assets - Ending</b>	<u><u>\$ 16,886</u></u>	<u><u>\$ 2,126</u></u>	<u><u>\$ 20,063</u></u>



**State of Oregon**

<u>Special Public Works</u>	<u>State Hospitals</u>	<u>Liquor Control</u>	<u>Veterans' Home</u>	<u>Water</u>	<u>Other</u>	<u>Total</u>
\$ -	\$ -	\$ 13,327	\$ -	\$ -	\$ -	\$ 13,327
-	-	2,846	-	-	-	2,868
-	-	-	-	-	20,829	20,829
-	67,394	-	5,044	-	16,021	88,948
-	-	305	-	-	11	340
-	96	-	-	-	1,544	1,640
-	1,232	267,869	-	-	13,982	283,083
8,641	-	-	-	3,725	1,404	23,892
945	-	-	8	552	616	2,914
-	1	-	-	-	-	1
84	-	226	-	2	6,204	6,535
9,670	68,723	284,573	5,052	4,279	60,611	444,377
1,139	112,237	11,920	205	467	14,331	141,277
480	20,219	27,175	4,868	323	11,394	65,144
-	-	133,430	-	-	10,446	143,876
3,623	-	30,597	-	3,603	682	38,505
-	-	-	-	-	63	63
5,989	-	-	-	2,837	1,485	18,316
122	-	-	-	55	3	180
-	613	618	353	-	1,113	2,697
-	-	-	2	-	10	442
11,353	133,069	203,740	5,428	7,285	39,527	410,500
(1,683)	(64,346)	80,833	(376)	(3,006)	21,084	33,877
-	(811)	13	-	-	(7)	(805)
-	(78)	-	-	-	(120)	(198)
-	(889)	13	-	-	(127)	(1,003)
(1,683)	(65,235)	80,846	(376)	(3,006)	20,957	32,874
18,059	62,085	-	18	12,424	4,608	97,194
(624)	(5,827)	(81,153)	-	(2,302)	(2,203)	(92,285)
15,752	(8,977)	(307)	(358)	7,116	23,362	37,783
95,357	22,025	18,213	11,551	44,513	148,121	377,660
154	15,920	-	564	-	(84,059)	(67,421)
95,511	37,945	18,213	12,115	44,513	64,062	310,239
\$ 111,263	\$ 28,968	\$ 17,906	\$ 11,757	\$ 51,629	\$ 87,424	\$ 348,022

**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2003**  
(In Thousands)

	<b><u>Energy</u></b> <b><u>Loan</u></b>	<b><u>Water</u></b> <b><u>Resources</u></b>	<b><u>Business</u></b> <b><u>Development</u></b>
<b>Cash Flows from Operating Activities:</b>			
Receipts from Customers	\$ 410	\$ 7	\$ 29
Receipts from Other Funds For Services	-	-	-
Loan Principal Repayments	11,317	140	2,927
Loan Interest Received	8,353	114	879
Taxes and Assessments Received	-	-	-
Payments to Employees for Services	(653)	(59)	(272)
Payments to Suppliers	(318)	(5)	(43)
Payments to Other Funds for Services	(156)	(23)	(51)
Payments to Prize Winners	-	-	-
Loans Made	(3,016)	-	(3,172)
Distributions to Other Governments	-	-	-
Other Receipts (Payments)	156	-	-
Net Cash Provided (Used) in Operating Activities	16,093	174	297
<b>Cash Flows from Noncapital Financing Activities:</b>			
Proceeds from Bond/COP Sales	-	-	-
Principal Payments on Bonds/COPS	(34,675)	(312)	-
Interest Payments on Bonds/COPS	(8,534)	(152)	-
Bond/COP Issuance Costs	(21)	-	-
Repayments on Advances Received	-	-	-
Interest Payments on Advances	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	-	(26)	(150)
Net Cash Provided (Used) in Noncapital Financing Activities	(43,230)	(490)	(150)
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Proceeds from Bond/COP Sales	-	-	-
Principal Payments on Bonds/COPS	-	-	-
Interest Payments on Bonds/COPS	-	-	-
Bond/COP Issuance Costs	-	-	-
Repayments on Advances Received	-	-	-
Acquisition of Capital Assets	-	-	-
Payments on Capital Leases	-	-	-
Proceeds from Disposition of Capital Assets	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	-	-	-
<b>Cash Flows from Investing Activities:</b>			
Purchases of Investments	-	-	-
Proceeds from Sales and Maturities of Investments	450	-	-
Interest on Investments and Cash Balances	743	31	98
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided (Used) in Investing Activities	1,193	31	98
Net Increase (Decrease) in Cash and Cash Equivalents	(25,944)	(285)	245
Cash and Cash Equivalents - Beginning	75,177	3,767	6,192
Prior Period Adjustments Restating Beginning Cash Balances	-	-	-
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 49,233</b>	<b>\$ 3,482</b>	<b>\$ 6,437</b>

State of Oregon

<u>Special Public Works</u>	<u>State Hospitals</u>	<u>Liquor Control</u>	<u>Veterans' Home</u>	<u>Water</u>	<u>Other</u>	<u>Total</u>
\$ -	\$ 75,753	\$ 271,457	\$ 5,090	\$ -	\$ 34,891	\$ 387,637
-	43	-	-	-	549	592
9,786	-	-	-	3,445	7,622	35,237
8,121	-	-	-	3,613	996	22,076
-	-	13,326	-	-	-	13,326
(1,137)	(113,122)	(11,986)	(209)	(466)	(14,106)	(142,010)
(287)	(18,701)	(160,445)	(4,905)	(130)	(19,867)	(204,701)
(114)	(1,819)	(2,105)	(10)	(141)	(1,460)	(5,879)
-	-	-	-	-	(196)	(196)
(40,936)	-	-	-	(9,543)	(28,372)	(85,039)
(4,136)	-	(31,426)	-	(3,214)	(736)	(39,512)
(74)	(490)	41	(6)	50	23,614	23,291
(28,777)	(58,336)	78,862	(40)	(6,386)	2,935	4,822
25,260	-	-	-	3,627	-	28,887
(4,825)	-	-	-	(2,180)	-	(41,992)
(5,466)	-	-	-	(2,783)	-	(16,935)
(553)	-	-	-	(98)	-	(672)
-	(206)	-	-	-	(9)	(215)
-	(79)	-	-	-	-	(79)
18,059	60,390	-	18	12,424	4,036	94,927
(624)	(8,449)	(80,046)	-	(2,302)	(2,133)	(93,730)
31,851	51,656	(80,046)	18	8,688	1,894	(29,809)
-	-	-	-	-	21,026	21,026
-	-	-	-	-	(14,084)	(14,084)
-	-	-	-	-	(1,727)	(1,727)
-	-	-	-	-	(211)	(211)
-	-	-	-	-	(319)	(319)
-	(224)	(867)	-	-	(451)	(1,542)
-	-	-	-	-	(98)	(98)
-	-	13	-	-	217	230
-	(224)	(854)	-	-	4,353	3,275
(4,107)	-	-	-	(2,848)	(801)	(7,756)
4,262	-	-	-	2,849	1	7,562
889	-	-	8	537	628	2,934
-	-	-	1	-	-	1
-	-	-	(1)	-	-	(1)
1,044	-	-	8	538	(172)	2,740
4,118	(6,904)	(2,038)	(14)	2,840	9,010	(18,972)
58,822	9,353	18,310	493	47,552	36,945	256,611
-	-	-	-	-	(280)	(280)
\$ 62,940	\$ 2,449	\$ 16,272	\$ 479	\$ 50,392	\$ 45,675	\$ 237,359

(continued on next page)

**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2003**  
**(In Thousands)**  
(continued from previous page)

	<u>Energy Loan</u>	<u>Water Resources</u>	<u>Business Development</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>			
Operating Income (Loss)	\$ 1,206	\$ (86)	\$ 251
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	-	-	-
Amortization of Bond/COP Issuance Costs	-	-	-
Amortization of Bond/COP Premium and Discount	183	8	-
Amortization of Deferred Charges	-	-	-
Bad Debt Expense	30	-	400
Interest Income Reported as Operating Revenue	(665)	(30)	(98)
Investment Expense Reported as Operating Expense	-	-	-
Interest Payments Reported as Operating Expense	7,689	125	-
Bond/COP Issuance Costs Reported as Operating Expense	93	-	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	(893)	17	(2)
Due from Other Funds	-	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
Loans Receivable	8,298	140	(245)
Net Contracts, Mortgages, Notes and Other Receivables	-	-	-
Accounts and Interest Payable	(2)	-	(8)
Due to Other Funds	-	-	1
Due to Other Governments	-	-	-
Trust Funds Payable	157	-	-
Deferred Revenue	-	-	2
Compensated Absences Payable	(3)	-	(4)
Total Adjustments	<u>14,887</u>	<u>260</u>	<u>46</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 16,093</u>	<u>\$ 174</u>	<u>\$ 297</u>
<b>Noncash Investing and Capital and Related Financing Activities:</b>			
Net Change in Fair Value of Investments	\$ -	\$ -	\$ -
Capital Assets Transferred to Governmental Funds	-	-	-
<b>Total Noncash Investing and Capital and Related Financing Activities</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

State of Oregon

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<u>Special Public Works</u>	<u>State Hospitals</u>	<u>Liquor Control</u>	<u>Veterans' Home</u>	<u>Water</u>	<u>Other</u>	<u>Total</u>
\$ (1,683)	\$ (64,346)	\$ 80,833	\$ (376)	\$ (3,006)	\$ 21,084	\$ 33,877
-	613	618	353	-	1,113	2,697
98	-	-	-	-	3	101
19	-	-	-	4	(68)	146
24	-	-	-	55	4	83
-	-	-	2	-	10	442
(945)	-	-	(8)	(552)	(616)	(2,914)
-	-	-	1	-	-	1
5,970	-	-	-	2,833	1,553	18,170
42	-	-	-	25	498	658
(520)	3,122	18	50	(112)	591	2,271
-	4,992	-	-	-	3	4,995
-	97	(826)	-	-	149	(580)
-	(463)	19	-	-	(6)	(450)
(31,150)	-	-	-	(6,098)	(20,669)	(49,724)
-	-	-	(5)	-	-	(5)
34	(519)	(1,970)	(47)	(5)	(624)	(3,141)
-	(1,544)	-	-	-	(60)	(1,603)
(506)	-	-	-	424	10	(72)
(158)	-	-	(7)	47	37	76
-	-	234	-	-	(95)	141
(2)	(288)	(64)	(3)	(1)	18	(347)
(27,094)	6,010	(1,971)	336	(3,380)	(18,149)	(29,055)
\$ (28,777)	\$ (58,336)	\$ 78,862	\$ (40)	\$ (6,386)	\$ 2,935	\$ 4,822
\$ 56	\$ -	\$ -	\$ -	\$ 14	\$ -	\$ 70
-	-	-	-	-	(69)	(69)
\$ 56	\$ -	\$ -	\$ -	\$ 14	\$ (69)	\$ 1

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## Internal Service Funds

Internal Service Funds account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis.

### **Central Services Fund**

This fund accounts for activities to provide various services to state agencies. These services include accounting, budgeting, personnel, mail and shuttle, purchasing, printing, copy center, data center, property development, telecommunications, motor pool, and an insurance fund.

### **Legal Services Fund**

This fund accounts for activities of the Department of Justice Attorney General's office to represent and advise the State's elected and appointed officials, agencies, boards, and commissions.

### **Banking Services Fund**

This fund accounts for activities of the Oregon State Treasury to provide banking, investment, and debt management services to state agencies.

### **Audit Services Fund**

This fund accounts for activities of the Secretary of State, Audits Division, to provide independent auditing services to state agencies.

### **Forestry Services Fund**

This fund accounts for activities of the Department of Forestry to operate an equipment and maintenance pool that provides transportation, heavy equipment, and aircraft support for operating programs and other state agencies.

### **Other Internal Service Funds**

This fund accounts for the sale of goods and services to other governmental units through activities not specifically accounted for in another internal service fund.

**Combining Balance Sheet  
Internal Service Funds  
June 30, 2003  
(In Thousands)**

	<u>Central Services</u>	<u>Legal Services</u>	<u>Banking Services</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 140,009	\$ 11,783	\$ 1,772
Investments	65,659	-	-
Securities Lending Cash Collateral	14,817	-	-
Accounts and Interest Receivable (net)	67,727	3,409	862
Due from Other Funds	127	854	-
Inventories	1,009	1,132	14
Prepaid Items	50	-	-
Total Current Assets	289,398	17,178	2,648
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	2,314	-	-
Investments - Restricted	11,034	-	-
Deferred Charges	11	-	-
Advances to Other Funds	794	-	-
Net Contracts, Notes and Other Receivables	-	31	-
Capital Assets:			
Land	9,563	-	-
Buildings, Property and Equipment	321,961	1,678	1,620
Construction in Progress	21,588	-	-
Infrastructure	693	-	-
Works of Art and Historical Treasures	141	-	-
Less Accumulated Depreciation and Amortization	(137,065)	(1,233)	(1,526)
Total Noncurrent Assets	231,034	476	94
<b>Total Assets</b>	<b>\$ 520,432</b>	<b>\$ 17,654</b>	<b>\$ 2,742</b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts and Interest Payable	\$ 11,533	\$ 3,375	\$ 828
Obligations Under Securities Lending	14,817	-	-
Due to Other Funds	-	4	-
Bonds/COPS Payable	7,296	-	-
Trust Funds Payable	160,669	27	-
Deferred Revenue	274	59	-
Compensated Absences Payable	2,351	2,166	384
Total Current Liabilities	196,940	5,631	1,212
Noncurrent Liabilities:			
Bonds/COPS Payable	108,498	-	-
Claims and Judgments Payable	71,234	-	-
Arbitrage Rebate Payable	336	-	-
Contracts, Mortgages and Notes Payable	783	-	-
Advances from Other Funds	448	-	-
Total Noncurrent Liabilities	181,299	-	-
Total Liabilities	378,239	5,631	1,212
Net Assets:			
Invested in Capital Assets, Net of Related Debt	101,095	445	94
Unrestricted	41,098	11,578	1,436
Total Net Assets	142,193	12,023	1,530
<b>Total Liabilities and Net Assets</b>	<b>\$ 520,432</b>	<b>\$ 17,654</b>	<b>\$ 2,742</b>



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<u>Audit Services</u>	<u>Forestry Services</u>	<u>Other</u>	<u>Total</u>
\$ 1,309	\$ 3,548	\$ 4,592	\$ 163,013
-	-	-	65,659
-	-	-	14,817
143	72	795	73,008
-	-	23	1,004
-	559	54	2,768
-	-	9	59
1,452	4,179	5,473	320,328
-	-	-	2,314
-	-	-	11,034
-	-	-	11
-	6	-	800
-	-	27	58
-	-	-	9,563
174	16,262	6,001	347,696
-	-	-	21,588
-	-	-	693
-	-	-	141
(158)	(10,569)	(3,284)	(153,835)
16	5,699	2,744	240,063
\$ 1,468	\$ 9,878	\$ 8,217	\$ 560,391
\$ 276	\$ 255	\$ 2,734	\$ 19,001
-	-	-	14,817
-	34	610	648
-	-	-	7,296
-	-	-	160,696
-	-	-	333
235	110	1,014	6,260
511	399	4,358	209,051
-	-	-	108,498
-	-	-	71,234
-	-	-	336
-	-	-	783
-	-	-	448
-	-	-	181,299
511	399	4,358	390,350
16	5,693	2,717	110,060
941	3,786	1,142	59,981
957	9,479	3,859	170,041
\$ 1,468	\$ 9,878	\$ 8,217	\$ 560,391

**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2003**  
**(In Thousands)**

	<b><u>Central Services</u></b>	<b><u>Legal Services</u></b>	<b><u>Banking Services</u></b>
<b>Operating Revenues:</b>			
Charges for Services	\$ 126,775	\$ 41,556	\$ 10,873
Rents and Royalties	25,028	16	-
Sales	12,991	54	-
Other	2,155	91	-
Total Operating Revenues	166,949	41,717	10,873
<b>Operating Expenses:</b>			
Salaries and Wages	37,193	35,498	6,019
Services and Supplies	125,161	3,433	5,172
Cost of Goods Sold	25,242	-	-
Distributions to Other Governments	500	-	-
Bond and COP Interest	5,849	-	-
Other Debt Service	28	-	-
Depreciation and Amortization	14,582	159	96
Total Operating Expenses	208,555	39,090	11,287
Operating Income (Loss)	(41,606)	2,627	(414)
<b>Nonoperating Revenues (Expenses):</b>			
Investment Income	3,251	-	-
Gain (Loss) on Disposition of Assets	1,226	-	-
Loan Interest Expense	(121)	-	-
Total Nonoperating Revenues (Expenses)	4,356	-	-
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	(37,250)	2,627	(414)
Capital Contributions	54	-	-
Transfers from Other Funds	2,943	-	-
Transfers to Other Funds	(5,832)	(2)	-
Change in Net Assets	(40,085)	2,625	(414)
Net Assets - Beginning	182,500	9,331	1,991
Prior Period Adjustments	(222)	67	(47)
Net Assets - Beginning - As Restated	182,278	9,398	1,944
<b>Net Assets - Ending</b>	<b>\$ 142,193</b>	<b>\$ 12,023</b>	<b>\$ 1,530</b>

<u>Audit Services</u>	<u>Forestry Services</u>	<u>Other</u>	<u>Total</u>
\$ 6,245	\$ 3,321	\$ 39,296	\$ 228,066
-	963	-	26,007
-	95	8	13,148
-	48	1,214	3,508
6,245	4,427	40,518	270,729
4,637	1,456	26,852	111,655
1,802	2,015	12,670	150,253
-	-	-	25,242
-	-	-	500
-	-	-	5,849
-	-	-	28
9	1,552	605	17,003
6,448	5,023	40,127	310,530
(203)	(596)	391	(39,801)
-	-	22	3,273
-	208	(15)	1,419
-	-	-	(121)
-	208	7	4,571
(203)	(388)	398	(35,230)
-	59	-	113
800	26	-	3,769
(808)	(230)	(335)	(7,207)
(211)	(533)	63	(38,555)
1,168	10,015	3,796	208,801
-	(3)	-	(205)
1,168	10,012	3,796	208,596
\$ 957	\$ 9,479	\$ 3,859	\$ 170,041

**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2003**  
**(In Thousands)**

	<u>Central Services</u>	<u>Legal Services</u>
<b>Cash Flows from Operating Activities:</b>		
Receipts from Customers	\$ 6,819	\$ 133
Receipts from Other Funds for Services	147,863	40,804
Payments to Employees for Services	(39,740)	(35,402)
Payments to Suppliers	(114,183)	(2,405)
Payments to Other Funds for Services	(10,554)	(1,536)
Claims Paid	(10,843)	(3)
Other Receipts (Payments)	(1,237)	31
Net Cash Provided (Used) in Operating Activities	<u>(21,875)</u>	<u>1,622</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Transfers from Other Funds	2,740	-
Transfers to Other Funds	(5,688)	(1,223)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>(2,948)</u>	<u>(1,223)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Bond/COP Sales	21,865	-
Principal Payments on Bonds/COPS	(21,140)	-
Interest Payments on Bonds/COPS	(5,668)	-
Bond/COP Issuance Costs	(377)	-
Repayments on Advances Made	31	-
Repayments on Advances Received	(661)	-
Interest Payments on Advances	(80)	-
Principal Payments on Loans	(303)	-
Interest Payments on Loans	(47)	-
Acquisition of Capital Assets	(36,202)	(101)
Proceeds from Disposition of Capital Assets	1,375	-
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(41,207)</u>	<u>(101)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of Investments	(23,904)	-
Proceeds from Sales and Maturities of Investments	40,932	-
Interest on Investments and Cash Balances	5,083	-
Interest Income from Securities Lending	127	-
Interest Expense from Securities Lending	(108)	-
Net Cash Provided (Used) in Investing Activities	<u>22,130</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(43,900)</u>	<u>298</u>
Cash and Cash Equivalents - Beginning	186,223	11,485
Prior Period Adjustments Restating Beginning Cash Balances	-	-
<b>Cash and Cash Equivalents - Ending</b>	<u><u>\$ 142,323</u></u>	<u><u>\$ 11,783</u></u>

State of Oregon

<u>Banking Services</u>	<u>Audit Services</u>	<u>Forestry Services</u>	<u>Other</u>	<u>Total</u>
\$ -	\$ -	\$ 43	\$ 12	\$ 7,007
10,818	6,152	4,447	37,329	247,413
(6,008)	(4,615)	(1,470)	(27,059)	(114,294)
(4,397)	(1,227)	(1,566)	(7,665)	(131,443)
(555)	(337)	(315)	(4,527)	(17,824)
-	-	-	(9)	(10,855)
-	-	-	-	(1,206)
(142)	(27)	1,139	(1,919)	(21,202)
-	800	26	132	3,698
-	(808)	(239)	(467)	(8,425)
-	(8)	(213)	(335)	(4,727)
-	-	-	-	21,865
-	-	-	-	(21,140)
-	-	-	-	(5,668)
-	-	-	-	(377)
-	-	3	-	34
-	-	-	-	(661)
-	-	-	-	(80)
-	-	-	-	(303)
-	-	-	-	(47)
(40)	(6)	(1,058)	(149)	(37,556)
-	-	266	69	1,710
(40)	(6)	(789)	(80)	(42,223)
-	-	-	-	(23,904)
-	-	-	-	40,932
-	-	-	55	5,138
-	-	-	-	127
-	-	-	-	(108)
-	-	-	55	22,185
(182)	(41)	137	(2,279)	(45,967)
1,995	1,350	3,412	6,871	211,336
(41)	-	(1)	-	(42)
\$ 1,772	\$ 1,309	\$ 3,548	\$ 4,592	\$ 165,327

(continued on next page)

**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2003**  
**(In Thousands)**  
(continued from previous page)

	<u>Central Services</u>	<u>Legal Services</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating Income (Loss)	\$ (41,606)	\$ 2,627
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	14,582	159
Amortization of Deferred Charges	485	-
Interest Payments Reported as Operating Expense	5,259	-
Bond/COP Issuance Costs Reported as Operating Expense	377	-
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	(7,736)	1,317
Due from Other Funds	-	(509)
Inventories	4,152	(53)
Prepaid Items	407	-
Deferred Charges	194	-
Accounts and Interest Payable	1,183	124
Due to Other Funds	-	4
Trust Funds Payable	(1,122)	24
Deferred Revenue	(4,917)	(2,094)
Claims and Judgments Payable	6,614	-
Contracts, Mortgages and Notes Payable	274	-
Compensated Absences Payable	(21)	23
Total Adjustments	19,731	(1,005)
Net Cash Provided (Used) by Operating Activities	<u>\$ (21,875)</u>	<u>\$ 1,622</u>
<b>Noncash Investing and Capital and Related Financing Activities:</b>		
Net Change in Fair Value of Investments	\$ 2,003	\$ -
Total Noncash Investing and Capital and Related Financing Activities	<u>\$ 2,003</u>	<u>\$ -</u>

State of Oregon

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<u>Banking Services</u>	<u>Audit Services</u>	<u>Forestry Services</u>	<u>Other</u>	<u>Total</u>
\$ (414)	\$ (203)	\$ (596)	\$ 391	\$ (39,801)
96	9	1,552	605	17,003
-	-	-	-	485
-	-	-	-	5,259
-	-	-	-	377
(70)	(93)	61	4,723	(1,798)
-	-	-	-	(509)
-	-	(25)	34	4,108
22	-	-	(1)	428
-	-	-	-	194
191	242	136	(54)	1,822
-	-	33	396	433
-	-	-	-	(1,098)
-	-	-	(7,900)	(14,911)
-	-	-	-	6,614
-	-	-	-	274
33	18	(22)	(113)	(82)
272	176	1,735	(2,310)	18,599
<u>\$ (142)</u>	<u>\$ (27)</u>	<u>\$ 1,139</u>	<u>\$ (1,919)</u>	<u>\$ (21,202)</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,003
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,003</u>

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## **Fiduciary Funds – Combining Pension Trust and Private Purpose Trust**

### **Pension Trust Funds**

Pension Trust Funds account for the transactions, assets, liabilities, and net assets held in trust for public employees by the Public Employees Retirement System for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the retirement system.

#### **Public Employees Retirement Fund**

This fund accounts for the activities of the defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. The plan is administered by the Public Employees Retirement Board under Oregon Revised Statutes, Chapter 238 and Internal Revenue Code Section 401(a).

#### **Postemployment Healthcare Fund**

This fund accounts for the transactions, assets, liabilities, and net assets related to medical and hospital insurance coverage contracted on behalf of retired members of the Public Employees Retirement System.

#### **Deferred Compensation Fund**

This fund accounts for the activities of the Deferred Compensation Program, an Internal Revenue Code Section 457 compensation plan, offered to employees of the State and administered by the Public Employees Retirement System.

### **Private Purpose Trust Funds**

Private Purpose Trust Funds account for all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

#### **Common School Fund**

This fund accounts for the principal and interest derived from the sale of specific timber, land, and property escheated to the State. The earnings must be used for educational purposes.

#### **Other Private Purpose Trust Funds**

This fund accounts for all other private purpose trust funds, the principal and earnings of which benefit individuals, private organizations, or other governments.

**Combining Statement of Fiduciary Net Assets**  
**Pension Trust Funds**  
**June 30, 2003**  
**(In Thousands)**

	<b>Public Employees Retirement</b>	<b>Postemployment Healthcare</b>	<b>Deferred Compensation</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 2,374,451	\$ 18,099	\$ 4,745	\$ 2,397,295
Receivables:				
Employer Contributions	28,590	1,969	-	30,559
Employee Contributions	18,912	5,002	-	23,914
Interest and Dividends	108,115	-	-	108,115
Investment Sales	1,131,859	-	89	1,131,948
From Other Funds	344	11,588	-	11,932
Total Receivables	1,287,820	18,559	89	1,306,468
Investments:				
Fixed Income	9,280,302	-	-	9,280,302
Equity	21,038,177	-	-	21,038,177
Real Estate	1,720,012	-	-	1,720,012
Alternative Equity	4,001,041	-	-	4,001,041
Postemployment Health Commingled Investments	-	85,964	-	85,964
Mutual Funds	-	-	577,049	577,049
Total Investments	36,039,532	85,964	577,049	36,702,545
Securities Lending Cash Collateral	2,069,625	-	-	2,069,625
Inventories	6	-	-	6
Prepaid Items	1,516	-	-	1,516
Capital Assets (net of \$3,286 accumulated depreciation):				
Land	836	-	-	836
Buildings, Property and Equipment	7,124	-	-	7,124
<b>Total Assets</b>	<b>41,780,910</b>	<b>122,622</b>	<b>581,883</b>	<b>42,485,415</b>
<b>LIABILITIES</b>				
Accounts and Interest Payable	2,494,136	5,955	3,686	2,503,777
Obligations Under Securities Lending	2,069,625	-	-	2,069,625
Due to Other Funds	11,643	148	141	11,932
Trust Funds Payable	112,119	-	-	112,119
Bonds/COPS Payable	52,145	-	-	52,145
<b>Total Liabilities</b>	<b>4,739,668</b>	<b>6,103</b>	<b>3,827</b>	<b>4,749,598</b>
<b>NET ASSETS</b>				
Held in Trust for:				
Employees' Pension Benefits	37,041,242	-	-	37,041,242
Employees' Postemployment Healthcare Benefits	-	116,519	-	116,519
Individuals, Organizations and Other Governments	-	-	578,056	578,056
<b>Total Net Assets</b>	<b>\$ 37,041,242</b>	<b>\$ 116,519</b>	<b>\$ 578,056</b>	<b>\$ 37,735,817</b>

**Combining Statement of Changes in Fiduciary Net Assets  
Pension Trust Funds  
For the Year Ended June 30, 2003  
(In Thousands)**

	<b>Public Employees Retirement</b>	<b>Postemployment Healthcare</b>	<b>Deferred Compensation</b>	<b>Total</b>
<b>ADDITIONS</b>				
Contributions:				
Employer	\$ 2,578,989	\$ 42,849	\$ -	\$ 2,621,838
Employee	400,989	66,380	50,279	517,648
Other Sources	21,437	-	-	21,437
Total Contributions	3,001,415	109,229	50,279	3,160,923
Investment Income:				
Net Appreciation in Fair Value of Investments	846,969	2,936	16,931	866,836
Interest, Dividends and Other Investment Income	817,188	528	-	817,716
Total Investment Income	1,664,157	3,464	16,931	1,684,552
Less Investment Expense	198,449	-	1,655	200,104
Net Investment Income	1,465,708	3,464	15,276	1,484,448
Other Income	282	15	712	1,009
<b>Total Additions</b>	<b>4,467,405</b>	<b>112,708</b>	<b>66,267</b>	<b>4,646,380</b>
<b>DEDUCTIONS</b>				
Pension Benefits	1,994,401	-	33,596	2,027,997
Death Benefits	5,923	-	-	5,923
Contributions Refunded	42,640	-	-	42,640
Healthcare Premium Subsidies	-	109,778	-	109,778
Administrative Expenses	16,785	2,275	660	19,720
<b>Total Deductions</b>	<b>2,059,749</b>	<b>112,053</b>	<b>34,256</b>	<b>2,206,058</b>
Change in Net Assets Held in Trust For:				
Employees' Pension Benefits	2,407,656	-	-	2,407,656
Employees' Postemployment Healthcare Benefits	-	655	-	655
Individuals, Organizations and Other Governments	-	-	32,011	32,011
Net Assets - Beginning	34,633,586	115,864	546,045	35,295,495
<b>Net Assets - Ending</b>	<b>\$ 37,041,242</b>	<b>\$ 116,519</b>	<b>\$ 578,056</b>	<b>\$ 37,735,817</b>

**Combining Statement of Fiduciary Net Assets**  
**Private Purpose Trust Funds**  
**June 30, 2003**  
(In Thousands)

	<b>Common School</b>	<b>Other</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 23,678	\$ 30,172	\$ 53,850
Receivables:			
Interest and Dividends	857	-	857
Investment Sales	5,633	-	5,633
Accounts	196	547	743
From Other Funds	365	1	366
Total Receivables	7,051	548	7,599
Investments:			
Fixed Income	102,364	-	102,364
Real Estate	5,267	-	5,267
Mutual Funds	605,234	-	605,234
Total Investments	712,865	-	712,865
Cash and Securities Held in Trust	682	2,573	3,255
Securities Lending Cash Collateral	11,628	2,929	14,557
Inventories	27	-	27
Advance to Other Funds	412	-	412
Net Contracts, Notes and Other Receivables	141	227	368
Conservatorship and Custodial Assets	-	4,460	4,460
Loans Receivable	96	552	648
Capital Assets (net of accumulated depreciation):			
Land	789	14	803
Buildings, Property and Equipment	331	-	331
Infrastructure	2,815	-	2,815
Works of Art and Historical Treasures	25	-	25
<b>Total Assets</b>	<b>760,540</b>	<b>41,475</b>	<b>802,015</b>
<b>LIABILITIES</b>			
Accounts and Interest Payable	43,604	22	43,626
Obligations Under Securities Lending	11,628	2,929	14,557
Due to Other Funds	757	5	762
Trust Funds Payable	151,079	1,268	152,347
Compensated Absences Payable	213	-	213
Contracts, Mortgages and Notes Payable	-	959	959
<b>Total Liabilities</b>	<b>207,281</b>	<b>5,183</b>	<b>212,464</b>
<b>NET ASSETS</b>			
Held in Trust for:			
Individuals, Organizations and Other Governments	553,259	36,292	589,551
<b>Total Net Assets</b>	<b>\$ 553,259</b>	<b>\$ 36,292</b>	<b>\$ 589,551</b>

**Combining Statement of Changes in Fiduciary Net Assets**  
**Private Purpose Trust Funds**  
**For the Year Ended June 30, 2003**  
**(In Thousands)**

	<b><u>Common School</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
<b>ADDITIONS</b>			
Investment Income:			
Net Appreciation in Fair Value of Investments	\$ 5,827	\$ -	\$ 5,827
Interest, Dividends, and Other Investment Income	21,420	512	21,932
Total Investment Income	27,247	512	27,759
Less Investment Expense	169	-	169
Net Investment Income	27,078	512	27,590
Licenses and Fees	283	-	283
Charges for Services	65	-	65
Fines and Forfeitures	92	-	92
Rents and Royalties	2,822	-	2,822
Sales	43	-	43
Gifts, Grants and Contracts	4	657	661
Other Income	353	13,778	14,131
Transfers from Other Funds	8,814	1,220	10,034
<b>Total Additions</b>	<b>39,554</b>	<b>16,167</b>	<b>55,721</b>
<b>DEDUCTIONS</b>			
Administrative Expenses	10,187	9,165	19,352
Payments in Accordance with Trust Agreements	40,122	1,045	41,167
Transfers to Other Funds	4,819	4,917	9,736
<b>Total Deductions</b>	<b>55,128</b>	<b>15,127</b>	<b>70,255</b>
Change in Net Assets Held in Trust For:			
Individuals, Organizations and Other Governments	(15,574)	1,040	(14,534)
Net Assets - Beginning	568,833	36,100	604,933
Prior Period Adjustments	-	(848)	(848)
Net Assets - Beginning - As Restated	568,833	35,252	604,085
<b>Net Assets - Ending</b>	<b>\$ 553,259</b>	<b>\$ 36,292</b>	<b>\$ 589,551</b>

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# ***Supplementary Information***

## Agency Fund

The Agency Fund accounts for assets held by the State as an agent for other governmental units, organizations, or individuals. For example, the Department of Consumer and Business Services holds deposits and investments to secure the faithful performance by insurers of insurance company obligations, including claims due to policyholders. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

### Combining Statement of Changes in Assets and Liabilities

#### Agency Funds

For the Year Ended June 30, 2003

(In Thousands)

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2003</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 55,077	\$ 1,867,296	\$ 1,843,556	\$ 78,817
Cash and Securities Held in Trust	1,415,368	701,652	685,369	1,431,651
Accounts and Interest Receivable	3,769	1,393	1	5,161
Net Contracts, Notes and Other Receivables	105,891	265,528	237,225	134,194
Conservatorship and Custodial Assets	60	-	18	42
Receivership Assets	68,534	226	2,039	66,721
<b>Total Assets</b>	<u>\$ 1,648,699</u>	<u>\$ 2,836,095</u>	<u>\$ 2,768,208</u>	<u>\$ 1,716,586</u>
<b>LIABILITIES</b>				
Accounts and Interest Payable	\$ -	\$ 58,961	\$ 58,954	\$ 7
Due to Other Governments	3,345	1,811	3,345	1,811
Trust Funds Payable	1,645,354	2,209,875	2,140,461	1,714,768
<b>Total Liabilities</b>	<u>\$ 1,648,699</u>	<u>\$ 2,270,647</u>	<u>\$ 2,202,760</u>	<u>\$ 1,716,586</u>





# ***Statistical Section***

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Schedule 1

**GENERAL GOVERNMENTAL<sup>1</sup>**  
**REVENUES BY SOURCE, EXPENDITURES BY FUNCTION,**  
**AND OTHER FINANCING SOURCES AND USES**

Last Ten Fiscal Years  
(In Thousands)

	2003	2002	2001	2000
Revenues by Source:				
Taxes	\$ 5,836,554	\$ 5,728,923	\$ 5,901,345	\$ 6,110,160
Licenses and Fees	286,619	275,439	333,358	352,353
Federal	4,160,747	3,767,499	3,383,853	3,137,946
Charges for Services	234,459	232,711	222,600	207,162
Fines and Forfeitures	91,349	81,899	90,661	85,654
Rents and Royalties	6,015	6,331	7,671	8,091
Investment Income	98,185	90,423	175,939	128,160
Sales	110,945	112,287	75,377	94,287
Donations and Grants	138,599	116,152	106,476	-
Tobacco Settlement Proceeds	85,255	86,524	-	-
Other	244,775	280,478	261,158	310,110
Total Revenues	<u>\$ 11,293,502</u>	<u>\$ 10,778,666</u>	<u>\$ 10,558,438</u>	<u>\$ 10,433,923</u>
Expenditures by Function:				
Education	\$ 2,900,408	\$ 3,347,415	\$ 3,183,306	\$ 3,123,368
Human Resources	4,347,675	4,402,681	3,926,443	3,576,521
Public Safety	783,712	778,997	762,298	688,629
Economic and Community Development	319,732	281,481	275,564	219,565
Natural Resources	508,367	460,214	431,932	402,735
Transportation	1,184,102	1,016,600	1,081,340	1,072,694
Consumer and Business Services	325,140	323,653	271,885	253,353
Administration	652,000	511,415	447,809	471,360
Legislative	29,637	26,718	31,993	24,697
Judicial	204,908	231,580	212,879	204,536
Revenue and Collections	-	-	-	-
Capital Outlay	63,726	81,681	121,422	90,396
Debt Service	207,754	122,537	73,506	49,876
Total Expenditures	<u>\$ 11,527,161</u>	<u>\$ 11,584,972</u>	<u>\$ 10,820,377</u>	<u>\$ 10,177,730</u>
Other Financing Sources (Uses):				
Transfers from Other Funds	\$ 1,691,017	\$ 3,300,534	\$ 2,624,217	\$ 2,407,598
Transfers to Other Funds	(1,670,815)	(3,438,615)	(2,746,653)	(2,578,061)
Net Debt Proceeds	702,297	292,304	142,329	358,726
Leases Incurred	107	7	-	854
Other	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ 722,606</u>	<u>\$ 154,230</u>	<u>\$ 19,893</u>	<u>\$ 189,117</u>

<sup>1</sup> Includes all governmental funds (general, special revenue, debt service, capital projects, and permanent funds)

**State of Oregon**

<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>
\$ 5,579,519	\$ 5,095,593	\$ 4,452,085	\$ 4,707,049	\$ 3,846,355	\$ 3,832,109
310,615	291,703	257,618	275,104	251,592	247,521
3,017,941	2,732,897	2,737,138	2,622,274	2,171,824	1,971,585
223,287	173,043	177,224	137,721	217,158	155,254
69,966	53,369	36,751	43,535	68,715	73,875
7,133	6,832	6,792	8,690	6,522	8,014
123,171	137,219	145,776	115,703	96,356	72,250
67,671	59,049	87,690	64,556	76,129	63,384
-	-	-	-	-	-
-	-	-	-	-	-
267,347	223,013	229,486	256,765	153,202	157,609
<u>\$ 9,666,650</u>	<u>\$ 8,772,718</u>	<u>\$ 8,130,560</u>	<u>\$ 8,231,397</u>	<u>\$ 6,887,853</u>	<u>\$ 6,581,601</u>
\$ 2,630,392	\$ 2,817,786	\$ 2,304,252	\$ 2,308,948	\$ 1,916,445	\$ 1,560,697
3,341,097	2,893,283	2,826,898	2,844,028	2,444,912	2,155,908
652,760	570,219	533,181	436,165	340,128	319,264
217,494	205,662	246,847	249,818	176,418	144,145
369,058	311,007	327,784	281,263	342,777	295,646
1,121,734	1,081,604	1,026,580	945,036	972,023	906,787
233,475	227,828	222,988	204,753	186,598	170,869
591,200	444,912	532,906	438,883	266,411	242,734
26,950	18,897	22,545	17,092	21,256	17,488
182,930	174,052	163,949	151,152	111,240	181,372
-	-	-	-	153,573	145,363
276,511	168,103	179,275	64,044	25,756	20,799
79,228	94,428	77,723	65,756	61,131	62,625
<u>\$ 9,722,829</u>	<u>\$ 9,007,781</u>	<u>\$ 8,464,928</u>	<u>\$ 8,006,938</u>	<u>\$ 7,018,668</u>	<u>\$ 6,223,697</u>
\$ 1,298,357	\$ 1,400,321	\$ 1,632,170	\$ 1,923,004	\$ 758,656	\$ 657,034
(1,359,677)	(1,496,440)	(1,625,033)	(1,942,027)	(829,259)	(790,072)
179,413	77,806	193,086	269,696	10,687	138,537
1,519	382	25	604	279	5,969
-	-	123	19	1,046	(67)
<u>\$ 119,612</u>	<u>\$ (17,931)</u>	<u>\$ 200,371</u>	<u>\$ 251,296</u>	<u>\$ (58,591)</u>	<u>\$ 11,401</u>

Schedule 2

NET GENERAL OBLIGATION DEBT PER CAPITA

Last Ten Fiscal Years  
(In Thousands)

Fiscal Year	Total General Obligation Debt	Less Debt Payable from Enterprise Revenues <sup>1</sup>	Less Debt Service Fund <sup>2</sup>	Net General Obligation Debt	Population <sup>3</sup>	Net General Obligation Debt Per Capita
1994	\$ 4,619,048	\$ 4,162,603	\$ -	\$ 456,445	3,121	\$ 146
1995	4,267,729	3,794,306	-	473,423	3,184	149
1996	3,745,104	3,298,026	-	447,078	3,247	138
1997	3,336,916	2,889,375	-	447,541	3,304	135
1998	2,997,606	2,522,815	-	474,791	3,352	142
1999	2,479,010	1,987,907	60,184	430,919	3,394	127
2000	2,429,380	1,855,860	10,497	563,023	3,437	164
2001	2,282,942	1,730,676	6,391	545,875	3,472	157
2002	2,386,884	2,318,169	4,431	64,284	3,505	18
2003	2,312,788	2,149,558	2,720	160,510	3,540	45

<sup>1</sup> Beginning in 2002, includes debt of Oregon University System, reported in an enterprise fund in accordance with the new reporting model (formerly reported in college and university funds).

<sup>2</sup> Amount available for repayment of general obligation bonds; data prior to FY 1999 is not available.

<sup>3</sup> Source: Oregon Department of Administrative Services, Office of Economic Analysis; based on census 2000 data.

Schedule 3

LEGAL DEBT MARGIN

As of June 30, 2003

	Legal Debt Limit <sup>1,2</sup>	Amount Outstanding <sup>3</sup>	Debt Margin
<b>General Obligation Bonds</b>			
Oregon University System	\$ 4,309,220,820	\$ 650,976,000 <sup>4</sup>	\$ 3,658,244,820
Pollution Control	260,000,000	57,450,606	202,549,394
Veterans' Welfare	22,982,511,038	1,069,030,521	21,913,480,517
Alternate Energy	1,436,406,940	148,362,854	1,288,044,086
Water Resources	4,309,220,820	2,055,480	4,307,165,340
State Highway	2,872,813,880	1,880,000	2,870,933,880
Elderly and Disabled Housing	1,436,406,940	284,627,778	1,151,779,162
Oregon Opportunity Bonds	204,081,633	98,404,949	105,676,684
General Purpose	50,000	-	50,000
Oregon School Bond Guarantee	1,436,406,940	-	1,436,406,940
Public Education Buildings Seismic Refit	574,562,776	-	574,562,776
Emergency Service Buildings Seismic Refit	574,562,776	-	574,562,776
State Power Development	4,309,220,820	-	4,309,220,820
Forest Rehabilitation <sup>5</sup>	538,652,602	-	538,652,602
Total General Obligation Bonds	<u>\$ 45,244,117,985</u>	<u>\$ 2,312,788,188</u>	<u>\$ 42,931,329,797</u>
<b>Revenue Bonds<sup>6</sup></b>			
Highway User Tax	\$ 500,000,000	\$ 257,076,094	\$ 242,923,906
Economic Development Bond Bank	400,000,000	179,730,463	220,269,537
Single & Multi-Family Housing Programs	2,000,000,000	1,351,326,338	648,673,662
State Fair & Exposition Center	10,000,000	2,045,000	7,955,000
Transportation Infrastructure Bank	200,000,000	-	200,000,000
Public Employees Retirement System	- <sup>7</sup>	45,200,000	- <sup>7</sup>
Oregon Health and Science University	- <sup>8</sup>	559,502,000	- <sup>8</sup>
Lottery Revenue Bonds <sup>9</sup>	- <sup>10</sup>	592,260,947	- <sup>10</sup>
Total Revenue Bonds	<u>\$ 3,110,000,000</u>	<u>\$ 2,987,140,842</u>	<u>\$ 1,319,822,105</u>
<b>Appropriation Bonds</b>			
Department of Administrative Services	\$ - <sup>11</sup>	\$ 469,959,773	\$ - <sup>11</sup>
Total Appropriation Bonds	<u>\$ -<sup>11</sup></u>	<u>\$ 469,959,773</u>	<u>\$ -<sup>11</sup></u>

<sup>1</sup> Oregon State Treasury, Debt Management Division.

<sup>2</sup> Based on the January 1, 2002 True Cash Value (TCV) of \$287,281,387,981.

<sup>3</sup> Excludes refunded and defeased bonds.

<sup>4</sup> Includes \$5,495,000 of Community College Workforce Development outstanding bonds.

<sup>5</sup> Issuance of Forest Rehabilitation bonds is limited by statute to \$750,000 per year.

<sup>6</sup> Revenue bonds schedule does not crossfoot as some columns are not applicable to all items.

<sup>7</sup> Debt was assumed by Public Employees Retirement System as a guarantor; debt limit and debt margin are not applicable.

<sup>8</sup> The Uniform Revenue Bond Act authorizes Oregon Health and Science University to issue revenue bonds, but does not establish a specific legal debt limit amount.

<sup>9</sup> Consolidated total for all lottery-backed revenue bonds.

<sup>10</sup> The legal debt limit for lottery revenue bonds is based on the requirement that unobligated net lottery proceeds be at least 400 percent of the maximum annual debt service on outstanding bonds, including the estimated debt service on any proposed new bonds.

<sup>11</sup> The authorization to issue appropriation bonds allowed for an issuance that would raise net proceeds of not more than \$450 million. Since the authorization was not stated in terms of a maximum debt limit, the legal debt limit and debt margin are not applicable.

Schedule 4

REVENUE BOND COVERAGE  
LOTTERY REVENUE BONDS

Last Nine Fiscal Years  
(In Thousands)

Fiscal Year	Gross Revenues	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1995	\$ 664,193	\$ 401,467	\$ 262,726	\$ 3,060	\$ 6,940	\$ 10,000	26.27
1996	695,121	415,743	279,378	4,420	5,577	9,997	27.95
1997	721,992	429,629	292,363	4,640	5,356	9,996	29.25
1998	716,336	427,938	288,398	4,875	5,124	9,999	28.84
1999	726,693	430,139	296,554	5,670	5,955	11,625	25.51
2000	761,913	456,855	305,058	13,190	17,459	30,649	9.95
2001	794,787	473,729	321,058	16,535	21,775	38,310	8.38
2002	820,646	489,470	331,176	27,295	23,441	50,736	6.53
2003	860,767	511,310	349,457	27,860	21,391	49,251	7.10

Note: Ten years of data are not presented as lottery bonds have only been outstanding for nine years. The State also has revenue bonds that are primarily paid using loan repayments. Schedules for these bonds are not presented because an association of net revenues with debt service requirements is not meaningful.

Schedule 5

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES  
FOR GENERAL OBLIGATION BONDED DEBT<sup>1</sup>  
TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES**

**Last Ten Fiscal Years  
(In Thousands)**

<b>Fiscal Year</b>	<b><u>Principal</u></b>	<b><u>Interest</u><sup>2</sup></b>	<b><u>Total Debt Service</u></b>	<b><u>Total General Governmental Expenditures</u><sup>3</sup></b>	<b>Ratio of Debt Service to General Governmental Expenditures</b>
1994	\$ 39,980	\$ 9,417	\$ 49,397	\$ 6,223,697	0.79%
1995	26,695	8,728	35,423	7,018,668	0.50%
1996	20,335	7,199	27,534	8,006,938	0.34%
1997	22,485	6,429	28,914	8,464,928	0.34%
1998	18,250	5,504	23,754	9,007,781	0.26%
1999	17,035	4,872	21,907	9,722,829	0.23%
2000	10,800	4,066	14,866	10,177,730	0.15%
2001	9,800	4,286	14,086	10,820,377	0.13%
2002	9,130	3,840	12,970	11,584,972	0.11%
2003	7,870	5,392	13,262	11,527,161	0.12%

<sup>1</sup> Excludes general obligation bonds reported in enterprise funds.

<sup>2</sup> Excludes bond issuance costs.

<sup>3</sup> Includes all governmental funds (general, special revenue, debt service, capital projects, and permanent funds).

**Schedule 6**

**OREGON'S TEN LARGEST PRIVATE EMPLOYERS**

**As of April 2002**

<b><u>Firm Name</u></b>	<b><u>Primary Industry</u></b>	<b><u>Average Number of Employees</u></b>
The Kroger Company (Fred Meyer)	Department store	13,300
Providence Health System	Integrated health system	12,800
Intel Corporation	Semiconductors and related devices	12,000
Safeway Stores, Inc.	Grocery store	11,500
Oregon Health and Science University	Hospital, medical and surgical	10,100
Legacy Emanuel Hospital & Health	Hospital, medical and surgical	7,200
Wal Mart Stores, Inc.	Department store	7,200
Kaiser Permanente	Offices and clinics of doctors of medicine	7,100
Hewlett-Packard Company	Semiconductors and related devices	5,200
Roseburg Forest Products Company	Plywood and veneer, softwood	4,600

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Source: Oregon Economic and Community Development Department



Schedule 7

**COMPARATIVE POPULATION GROWTH  
OREGON AND UNITED STATES**

**Last Ten Calendar Years  
(In Thousands)**

<u>Year</u>	<u>Oregon<sup>1</sup></u>	<u>Percent Change</u>	<u>United States<sup>2</sup></u>	<u>Percent Change</u>
1993	3,060	2.27%	259,919	1.33%
1994	3,121	1.99%	263,126	1.23%
1995	3,184	2.02%	266,278	1.20%
1996	3,247	1.98%	269,394	1.17%
1997	3,304	1.76%	272,647	1.21%
1998	3,352	1.45%	275,854	1.18%
1999	3,394	1.25%	279,040	1.15%
2000	3,437	1.27%	282,125	1.11%
2001	3,472	1.02%	284,797	0.95%
2002	3,505	0.95%	288,369	1.25%

Sources:

<sup>1</sup> Oregon Department of Administrative Services, Office of Economic Analysis; based on 2000 census data.

<sup>2</sup> U.S. Bureau of Census; based on 2000 census data.

Schedule 8

COMPARATIVE PER CAPITA INCOME

Last Ten Calendar Years

<u>Year</u>	<u>Oregon<sup>1</sup></u>	<u>Percent Change</u>	<u>United<sup>2</sup> States</u>	<u>Percent Change</u>	<u>Oregon as Percent of United States</u>
1993	20,232	4.1%	21,539	2.8%	93.9%
1994	21,187	4.7%	22,340	3.7%	94.8%
1995	22,362	5.6%	23,255	4.1%	96.2%
1996	23,270	4.1%	24,270	4.4%	95.9%
1997	24,385	4.8%	25,412	4.7%	96.0%
1998	25,446	4.4%	26,893	5.8%	94.6%
1999	26,248	3.2%	27,880	3.7%	94.1%
2000	27,760	5.8%	29,770	6.8%	93.3%
2001	28,175	1.5%	30,472	2.4%	92.5%
2002	28,668	1.7%	30,832	1.2%	93.0%

Sources:

<sup>1</sup> Calculated based on population figures from the Oregon Department of Administrative Services, Office of Economic Analysis and personal income figures from the U.S. Bureau of Economic Analysis.

<sup>2</sup> Calculated based on population figures from the U.S. Bureau of Census and personal income figures from the U.S. Bureau of Economic Analysis.

Schedule 9

COMPARATIVE EMPLOYMENT AND UNEMPLOYMENT RATES

Last Ten Calendar Years  
(Annual Averages, In Thousands)

<u>Year</u>	<u>Civilian Labor Force</u>		<u>Unemployment</u>		<u>Unemployment Rate</u>		<u>Oregon Rate as Percent of United States Rate</u>
	<u>Oregon<sup>1</sup></u>	<u>United States<sup>2</sup></u>	<u>Oregon<sup>1</sup></u>	<u>United States<sup>2</sup></u>	<u>Oregon<sup>1</sup></u>	<u>United States<sup>2</sup></u>	
1993	1,596	129,200	116	8,940	7.3%	6.9%	106%
1994	1,650	131,056	90	7,996	5.5%	6.1%	90%
1995	1,653	132,304	80	7,404	4.8%	5.6%	86%
1996	1,718	133,943	102	7,236	5.9%	5.4%	109%
1997	1,728	136,297	101	6,739	5.8%	4.9%	118%
1998	1,765	137,673	99	6,210	5.6%	4.5%	124%
1999	1,761	139,368	100	5,880	5.7%	4.2%	136%
2000	1,803	140,863	88	5,655	4.9%	4.0%	123%
2001	1,794	141,815	114	6,742	6.4%	4.8%	133%
2002	1,834	144,863	138	8,378	7.5%	5.8%	129%

Sources:

<sup>1</sup> Oregon Employment Department

<sup>2</sup> U.S. Bureau of Labor Statistics

Schedule 10

**OREGON EXPORTS TO THE WORLD**  
**By Industry Classification**

**Last Ten Calendar Years**  
**(In Millions)**

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
High Technology	\$ 5,741	\$ 4,911	\$ 7,517	\$ 6,588	\$ 5,397	\$ 5,110	\$ 4,731	\$ 4,294	\$ 2,601	\$ 2,234
Wood Products	567	573	785	712	795	1,195	1,215	1,404	1,433	1,288
Transportation	966	617	894	1,176	699	491	371	358	412	296
Other Manufacturing	684	665	924	672	524	472	443	348	276	236
Metals	311	329	383	370	483	468	348	347	326	284
Plastics and Rubber Products	80	53	63	84	68	77	78	75	55	50
Printing and Publishing	31	40	31	26	32	33	33	29	35	33
Agriculture	1,520	1,482	1,543	1,559	1,667	2,025	2,356	2,375	1,925	1,572
Fisheries	35	34	32	26	20	27	31	40	40	29
Other Non-Manufacturing	152	198	276	232	157	171	168	168	143	105
Total Exports to the World	<u>\$ 10,087</u>	<u>\$ 8,902</u>	<u>\$ 12,448</u>	<u>\$ 11,445</u>	<u>\$ 9,842</u>	<u>\$ 10,069</u>	<u>\$ 9,774</u>	<u>\$ 9,438</u>	<u>\$ 7,246</u>	<u>\$ 6,127</u>

Source: Oregon Department of Administrative Services, Office of Economic Analysis

Schedule 11

MISCELLANEOUS STATISTICS

Date Entered Union <sup>1</sup> .....	1859
Form of Government .....	Representative form of Government with three Branches: Executive, Legislative and Judicial
Land Area:	
Square Miles <sup>1</sup> .....	96,002
Inland Water Area (square miles) <sup>1</sup> .....	1,129
Coastline (miles) <sup>1</sup> .....	296
Population <sup>2</sup> .....	3,505,000
Miles of State Highway <sup>3</sup> .....	7,500
Higher Education:	
Community Colleges:	
Number of Campuses <sup>1</sup> .....	17
Number of Students <sup>5</sup> .....	406,434
State Universities:	
Number of Campuses <sup>1</sup> .....	7
Number of Regular Term Students <sup>6</sup> .....	105,529
Recreation:	
Number of State Parks <sup>4</sup> .....	230
Area of State Parks (acres) <sup>1</sup> .....	95,500
Area of State Forests (acres) <sup>7</sup> .....	780,000

Sources:

<sup>1</sup> Oregon Blue Book 2003-2004

<sup>2</sup> Oregon Department of Administrative Services, Office of Economic Analysis

<sup>3</sup> Oregon Department of Transportation

<sup>4</sup> Oregon Parks and Recreation Department

<sup>5</sup> Oregon Department of Community Colleges and Workforce Development

<sup>6</sup> Oregon University System

<sup>7</sup> Oregon Department of Forestry

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